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ANNUAL REPORT TO PARLIAMENT

President of the Treasury Board

Président du Conseil du Trésor

Crown Corporations and Other Corporate Interests of Canada 1998

Canada

ANNUAL REPORT TO PARLIAMENT

Crown Corporations and Other Corporate Interests of Canada 1998

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CROWN CORPORATIONS AND OTHER CORPORATE INTERESTS OF CANADA

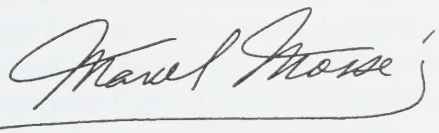
I am pleased to table the 1998 edition of the *Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada,* in accordance with the provisions of the *Financial Administration Act.*

This report is a unique source of information for parliamentarians and for Canadian taxpayers on the Government of Canada's corporate holdings. It provides comprehensive information on the activities of all Crown corporations and their wholly owned subsidiaries, as well as the other corporate interests of Canada. The report also contains information on Crown corporations' performance indicators and on their innovative ways of adapting to the new social and economic realities.

Since 1994, the federal government has undertaken to improve management in the public sector while continuing to offer quality services to Canadians. From the start of Program Review, the government diligently established better management practices and explored innovative approaches to its service delivery. To that end, we passed a number of bills this year that will see several Crown corporations move to shared-governance structures. These corporations will include, among others, local port corporations and the Canadian Wheat Board.

With regard to the management of Crown corporations, I note that the *Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises*, published in 1996 by the Treasury Board of Canada Secretariat and the Department of Finance Canada, have facilitated the achievement of concrete results while helping Crown corporations strengthen their corporate governance over the past fiscal year.

Lastly, I believe all our Crown corporations must participate in and contribute to the renewal of government by meeting their own challenges and striving for continuous improvement while preserving the quality of their services to Canadians.



Marcel Massé
President of the Treasury Board

December 1998

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INTRODUCTION

The *1998 Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada* is prepared in response to sections 151 and 152 of the *Financial Administration Act*, which require that the President of the Treasury Board table annually the following documents in Parliament:

- a consolidated report on the businesses and activities of all parent Crown corporations, including information on all Crown corporations and other corporate interests of Canada; and
- a report indicating when annual reports and corporate plan and budget summaries were to be laid before each House (for the period ending on July 31), and when they were actually laid before that House.

This report comprises the following chapters:

- **Overview of the Portfolio** highlights new developments with regard to Crown corporations and presents examples of corporations that reported on their governance activities during the year under review. It also provides consolidated financial and employment information by ministerial portfolio.
- **Highlights of Corporate Initiatives** provides examples of the use of new and improved technology as well as partnering arrangements to maximize cost efficiencies, add value for clients and take advantage of growth opportunities.

Examples of the use of surveys and consultation to gauge client satisfaction, and activities contributing to broader governmental agendas are also noted.

- **Corporate Abstracts** provides information on the mandate and corporate profile of each Crown corporation. It also contains a summary table illustrating trends in financial results and employment over a five-year period. Selected performance indicators are shown where they have been reported in numerical form by the Crown corporation.
- **Corporate Holdings** presents a listing of parent Crown corporations and their subsidiaries and associates.
- **Other Corporate Interests** provides information about the various joint and mixed enterprises, international organizations and other entities in which the Government of Canada has a stake.
- **Consolidated List of Crown Corporations and Other Corporate Interests of Canada** is an alphabetical compilation of the organizations included in this report.
- **Tabling of Reports in Parliament** presents a record of annual reports and summaries of the corporate plans and budgets tabled in Parliament by the responsible ministers.
- **Annex** contains the audited financial statements for each parent Crown corporation.

Overview of the Portfolio

With the creation of the Canada Pension Plan Investment Board, the portfolio of parent Crown corporations increased in size in 1997/98 from 47 to 48. In addition, one wholly owned subsidiary has been directed to report as a parent Crown corporation for the purposes of the *Financial Administration Act.*

Every parent Crown corporation is a legally distinct entity wholly owned by the Crown and managed by a board of directors. The enabling legislation for each parent Crown corporation, whether by a special Act of Parliament or by articles of incorporation under the *Canada Business Corporations Act*, sets out the corporation's mandate, powers and objectives.

The current portfolio is highly diversified with corporations operating in many sectors of the Canadian economy. The corporations vary widely in size and differ in their demands on the government for financial assistance. Each has its own unique public policy purpose.

Exhibit 1 illustrates the federal parent Crown corporations grouped according to the portfolio of the minister through whom they are accountable to Parliament.

Exhibit 1: Parent Crown Corporations Grouped by Ministerial Portfolio

Agriculture and Agri-Food

- Canadian Dairy Commission
- Farm Credit Corporation

Canadian Heritage

- Canada Council
- Canadian Broadcasting Corporation
- Canadian Film Development Corporation
- Canadian Museum of Civilization Corporation
- Canadian Museum of Nature
- Canadian Race Relations Foundation
- National Arts Centre Corporation
- National Capital Commission
- National Gallery of Canada
- National Museum of Science and Technology Corporation

Finance

- Bank of Canada
- Canada Deposit Insurance Corporation
- Canada Development Investment Corporation
- Canada Pension Plan Investment Board
- Petro-Canada Limited

Fisheries and Oceans

- Freshwater Fish Marketing Corporation

Foreign Affairs

- International Development Research Centre

Industry

- Business Development Bank of Canada
- Enterprise Cape Breton Corporation
- Standards Council of Canada

International Trade

- Canadian Commercial Corporation
- Export Development Corporation

Natural Resources and The Canadian Wheat Board

- Atomic Energy of Canada Limited
- Canadian Wheat Board, The
- Cape Breton Development Corporation

Public Works and Government Services

- Canada Lands Company Limited
- Canada Mortgage and Housing Corporation
- Canada Post Corporation
- Defence Construction (1951) Limited
- Old Port of Montreal Corporation Inc.[1]
- Queens Quay West Land Corporation
- Royal Canadian Mint

Transport

- Atlantic Pilotage Authority
- Canada Ports Corporation
- Great Lakes Pilotage Authority, Ltd.
- Halifax Port Corporation
- Laurentian Pilotage Authority
- Marine Atlantic Inc.
- Montreal Port Corporation
- Pacific Pilotage Authority
- Port of Quebec Corporation
- Prince Rupert Port Corporation
- Saint John Port Corporation
- St. John's Port Corporation
- St. Lawrence Seaway Authority, The
- Vancouver Port Corporation
- VIA Rail Canada Inc.

[1] The Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed by Order in Council (P.C. 1987/86) to report as if it were a parent Crown corporation.

Changes and Reviews

During the period in review, one parent Crown corporation, one wholly owned subsidiary and two shared-governance corporations were created. In addition, the implementation of the provisions of two Acts that received Royal Assent in June 1998 will change the structures of several Crown corporations. As well, the sale of two corporations and some mandate related announcements were made.

New Crown Corporations

The Canada Pension Plan Investment Board was created on April 1, 1998. Its mandate is to manage prudently and professionally, in the best interests of contributors and beneficiaries, funds transferred to it from the Canada Pension Plan Account. It has been estimated that assets under the board's management could total between $60 billion and $80 billion by 2007. Funds are expected to begin to flow to the board early in 1999. The board is a parent Crown corporation exempt from Divisions I to IV of Part X of the *Financial Administration Act*.

CLC Downsview Inc. was formed in July 1998 to develop and manage the Downsview urban recreation green space in Toronto. The new corporation is a wholly owned subsidiary of the Canada Lands Company Limited.

Shared-governance Corporate Bodies

The Canada Millennium Scholarship Foundation was created in June 1998 as an independent corporation at arm's length from the government. Its mandate is to administer a $2.5-billion scholarship fund as announced in the 1998 budget. The purpose of this fund is to provide financial support for post-secondary education to more than 100,000 students in each year of a 10-year period beginning in the Year 2000. The foundation will comprise 15 members, six of whom are appointed by the government. The remaining nine will be appointed by the first six members. The appointment of members is to be made so as to ensure that the membership is knowledgeable about post-secondary education and learning and the needs of the Canadian economy and that it is drawn from the various regions of Canada. The government has appointed the chairperson of the board of directors and will appoint five other directors. The members of the foundation will appoint the remaining nine directors to the board, after consultation with the provincial ministers responsible for post-secondary education and with representatives of post-secondary education and learning organizations in Canada that the members consider appropriate.

The Canada Foundation for Innovation, created in 1997 as an independent corporation to strengthen Canadian capability for research, began dispersing funds in 1998. Through an up-front investment of $800 million by the federal government, the foundation will be able to provide about $180 million annually for research infrastructure over five years. The Governor in Council appointed a minority of the foundation's board of directors while the research and business communities appointed the majority.

In June 1998, the amendments to the *Canadian Wheat Board Act* received Royal Assent. These amendments will allow farmers to elect 10 of the 15 members of the board of directors, thereby ensuring that The Canadian Wheat Board (CWB) is responsive to the needs and priorities of farmers. The Governor in Council will continue to appoint the remaining directors. The elected directors will assume their duties no later than December 31, 1998. On August 25, 1998, the CWB announced that KPMG had been hired as the election co-ordinator for the upcoming election of the 10 farmer members to the CWB board.

Under the *Canada Marine Act*, which also received Royal Assent in June 1998, the government will transfer operational control of qualifying ports to Canada Port Authorities. Their boards of directors will comprise a majority of representatives nominated in consultation with port users, as well as representatives appointed by the federal, provincial and municipal governments. Canada Port Authorities will be federally incorporated as not-for-profit corporations with powers and responsibilities similar to those of the corporations established under the *Canada Business Corporations Act.* Although the new port authorities will not issue shares, they will be expected to operate with full commercial discipline.

Under the same Act, the Canada Ports Corporation (CPC) will be dissolved and the *Canada Ports Corporation Act* will be repealed. The seven local port corporations and three divisional ports are scheduled to become Canada Port Authorities. In its 1997 annual report, CPC noted that the divisional ports at Prescott and Port Colborne were being prepared for transfer to local community interests, and that the Port of Belledune's future status had yet to be resolved. With the dissolution of CPC, Ridley Terminals Inc., currently a wholly owned subsidiary, would become a parent Crown corporation.

The *Canada Marine Act* also allows the federal government to enter into an agreement with users of the St. Lawrence Seaway or any other private-sector group for the future management and operation of the Seaway. The St. Lawrence Seaway Authority will be dissolved and its subsidiary bridge corporations will be converted into parent Crown corporations. On October 2, 1998, operational responsibility for the Great Lakes/ St. Lawrence Seaway system was transferred to the St. Lawrence Seaway Management Corporation, which is a private-sector corporation established by Seaway users.

Privatization

In December 1997, the government sold its nearly 11-per-cent share of National Sea Products Limited, a publicly traded Canadian company based in Lunenberg, Nova Scotia. The shares were sold to Scotia Investments Limited for net proceeds of $5.8 million. Under the terms of a shareholders' agreement, Scotia Investments Limited, the principal holder in National Sea Products Limited, held the right of first refusal on the sale of the government's shares.

Theratronics International Limited, a wholly owned subsidiary of the Canada Development Investment Corporation, was sold in May 1998 to MDS Inc. of Toronto for

$15.45 million. Theratronics is a leading manufacturer of radiation therapy equipment used by hospitals and medical institutions around the world.

Mandate Reviews and Follow-up

The *Bank of Canada Act* was amended in 1997 to permit the Bank to charge for fiscal agent services provided to the federal government (with the consent of the Minister of Finance); pay interest; buy and sell a wider range of securities; carry on business activities incidental to any of its permitted activities; and gather information from all federally incorporated financial institutions on the same basis as was previously the case for the chartered banks. In addition, the list of persons ineligible for the position of director of the Bank was extended. Also, the Bank is now required to turn over to the federal government unclaimed balances of less than $500 (from the previous level of $100) that have not been claimed for a period of 20 years.

The Export Development Corporation reported that a mandate review of the corporation is scheduled to begin in 1998 and to be completed by June 1999.

In January 1998, the Minister of Transport asked the House of Commons Standing Committee on Transport (SCOT) to review the passenger rail system and examine ways to revitalize VIA Rail Canada Inc. while minimizing the fiscal burden on the taxpayer. After extensive stakeholder and public consultation, SCOT tabled its report, entitled *The Renaissance of Passenger Rail in Canada*, on June 11, 1998, in the House of Commons.

On October 21, 1998, the Minister of Transport announced that Transport Canada and VIA Rail will be working together over the coming months to prepare a strategic long-term business plan that will outline VIA's route network, levels of service, funding requirements and proposals for equipment renewal. To help control costs and improve VIA Rail's overall service, the Minister also indicated that the federal government will encourage public/private partnerships and consider franchising certain VIA routes to the private sector.

Corporate Governance

In 1996, the President of the Treasury Board and the Minister of Finance issued *Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises.* The guidelines recommended that Crown corporations report annually on their corporate governance policies and practices in relation to the guidelines. Examples of Crown corporations that reported on their governance activities in their most recent annual reports are noted below.

The Canadian Broadcasting Corporation (CBC) reported that, for the third year in a row, the board of directors improved its corporate governance processes in light of the federal government's guidelines. These included improving its strategic planning process and approving a strategy to improve communications with the Crown, other stakeholders and the public. During 1996/97, CBC's board had developed a method of assessing the chief executive officer's (CEO's) performance. This yearly process was first implemented

during 1997/98. As well, advice was provided to the appropriate minister regarding the type of expertise that would be beneficial to the overall composition of the board. The board undertook an evaluation process to assess its strengths and weaknesses and to refocus its work to better reflect its original terms of reference. In addition, board members were invited to attend a conference on corporate governance. Further plans will be developed as new board members join.

The Farm Credit Corporation (FCC), reported that the board of directors has implemented a number of measures to ensure that its governance practices are consistent with the guidelines. These measures included the establishment of a Corporate Governance Committee in 1997/98 to oversee issues such as the development of, and enhancements to, the corporation's approach to corporate governance; assess the effectiveness of the board; and evaluate performance. With the completion of the term of the previous CEO, the board conducted a search process to fill the position. In conjunction with the Prime Minister's Office and the Minister of Agriculture and Agri-Food, desired skills and management attributes for the CEO position were established and applied in the selection process. FCC also reported on the mandates of its board committees and, for each board member, on their board and committee meeting attendance, annual retainer, board per diems, committee remuneration and expenses.

The Canada Deposit Insurance Corporation (CDIC), which in its 1996/97 annual report had included a comparison of the corporation's governance practices with each of the guidelines, noted that only one significant issue remained outstanding and that it would be resolved by the board of directors by mid-1998. CDIC noted that its next major review of corporate governance will be undertaken in the autumn of 1999.

Canada Post Corporation reported that its board of directors believes that the corporation's current corporate governance practices substantially comply with the government's guidelines. It also noted that the Corporate Governance Committee initiated a number of projects during 1997, including a review of the corporation's standards of conduct for directors, the board's delegation of signing authorities, on-going education and training for existing directors and the orientation program for newly appointed directors. The committee also plays an active role in overseeing Canada Post's ethics program for all employees.

At Defence Construction (1951) Limited, the board of directors conducted a comprehensive review of its responsibilities for the stewardship of the corporation in light of the guidelines. The review led to the conclusion that compliance with all aspects of the governance requirements has been ensured through the board's involvement in corporate planning, risk assessment, performance evaluation and the oversight of management systems, policies and practices, in which the board played an active role.

At its August 1997 meeting, the board of trustees of the National Museum of Science and Technology Corporation reviewed the governance guidelines. The roles and responsibilities of the board were discussed in the context of the establishment of the corporation's strategic direction, the safeguarding of the corporation's resources, the

monitoring of corporate performance and reporting to the Crown. The corporation's annual report noted that the board of trustees is committed to fulfilling its responsibilities through good corporate governance practices that respect the corporation's legislative and accountability framework.

Other corporations reporting on their corporate governance activities during the past year included the Bank of Canada, the Business Development Bank of Canada, Canada Lands Company Limited, Canada Mortgage and Housing Corporation, the Export Development Corporation and the Standards Council of Canada.

Excellence in Reporting

Established by the Auditor General of Canada in 1994, the Auditor General Award for Excellence in Annual Reporting by Crown Corporations recognizes those corporations that provided the best accountability information. It is intended to act as an incentive to corporations to improve the annual reports and the summaries of corporate plans and budgets that are tabled in Parliament.

The Farm Credit Corporation and the National Capital Commission were the recipients of the 1997 award. For the Farm Credit Corporation, this award marked its second consecutive win.

Measuring Performance

In addition to reporting on their financial and operational performance in their annual reports, several Crown corporations also referred to their performance measurement methods, including the 'balanced scorecard' approach.

For example, in 1997, the Royal Canadian Mint introduced a balanced scorecard approach to measuring its performance. For each of the four measures, namely financial targets, customers, internal business processes, and innovation and learning, the Mint reported on its key strategies, performance measures and achievements.

The Canada Lands Company Limited noted that it uses a balanced scorecard approach to monitor the corporation's activities. In addition, the corporation aims to measure the additional benefits it is creating for the broader range of stakeholders, including municipal governments, local communities and First Nations. These, in turn, would be used to measure the benefit the corporation provides beyond dividend payments, such as private-sector investment, job creation (short-and long-term), municipal revenue enhancement, creation of residential housing, provision of parks and recreational facilities, preservation of heritage properties and environmental benefits.

The Canada Deposit Insurance Corporation indicated that it was now identifying new performance measures for future use based on the balanced score card approach.

The St. Lawrence Seaway Authority reported that its performance measurement system continued to evolve. Twenty-two performance measurement indicators have been

developed and brought online, with the exception of process effectiveness and human resources indicators. More than 450 staff members have received training in the use of the system. Use of indicators to measure customer satisfaction began. The authority also used indicators to monitor competitiveness and revenue generation.

Selected examples of the performance indicators that were reported in numerical form by individual Crown corporations are included in the summary information tables in the Corporate Abstracts chapter of this report.

Overall Crown Corporation Performance

This section of the Overview provides a summary of overall performance by Crown corporations in response to the *Financial Administration Act* requirement that this annual consolidated report include employment and financial data, including aggregate borrowings of parent Crown corporations.

The following data are featured:

- assets;
- net income;
- employment;
- budgetary appropriations; and
- debt obligations.

The privatization of the Canadian National Railway Company (CN) in November 1995 contributed to a significant decline in the financial and employment aggregates of Crown corporations, and this decline is reflected in the exhibits that appear throughout this section. Data for CN are included for the years up to 1994/95, but are excluded from 1995/96 on.

At the end of this section, two exhibits provide a summary view of all Crown corporations:

- Exhibit 10 shows each corporation's employment and financial position; and
- Exhibit 11 provides information about each corporation's operating results and financing.

Exhibits 10 and 11 are also structured according to the portfolio grouping shown in Exhibit 1. Note that information provided in this section, including the two exhibits identified above, excludes financial data for:

- the Bank of Canada, due to the unique nature of its operations;

- Atomic Energy of Canada Limited and the Freshwater Fish Marketing Corporation, since their respective 1997/98 annual reports had not been tabled in Parliament as of October 30, 1998; and
- the Canada Pension Plan Investment Board, since its operations had not commenced prior to July 31, 1998.

In order to present information on a comparative basis, financial data for previous years were adjusted to exclude data for the above Crown corporations. Employment data for these corporations, however, are included to provide a more complete picture of total employment in Crown corporations. Specific information about individual Crown corporations may be found in the Corporate Abstracts chapter of this report, as well as in their respective annual reports.

For Crown corporations with fiscal years ending on or after July 31, 1998, this report shows their financial data for the fiscal year ending in 1997. Accordingly, for the Canadian Dairy Commission, The Canadian Wheat Board and the National Arts Centre Corporation, this report covers the period ending July 31, 1997, for the first two corporations, and August 31, 1997, for the third. All of the other corporations' data are for their respective 1997 or 1997/98 fiscal years.

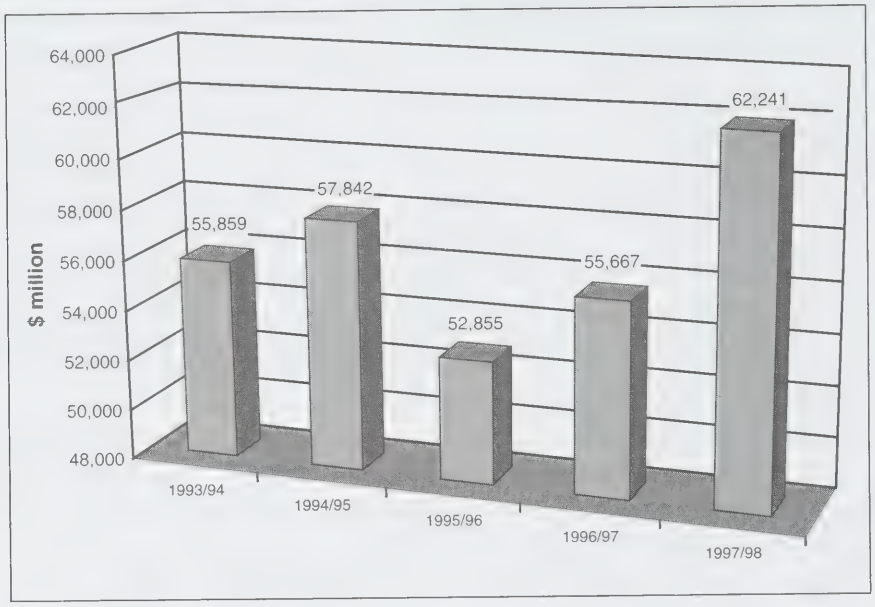
Assets

Total assets for Crown corporations reached $62.2 billion in 1997/98, reflecting an increase of $6.6 billion over the previous year. Increases reported by the Canada Mortgage and Housing Corporation (CMHC) and the Export Development Corporation (EDC) accounted for about three-quarters of this 11.8-per-cent increase in total assets.

Five Crown corporations accounted for 82 per cent of the total assets: CMHC, EDC, The Canadian Wheat Board, the Farm Credit Corporation and the Business Development Bank of Canada.

Exhibit 2 illustrates the fluctuations in the value of Crown corporations' assets over the last five years.

Exhibit 2: Total Assets for Crown Corporations, 1993/94 to 1997/98



Net Income

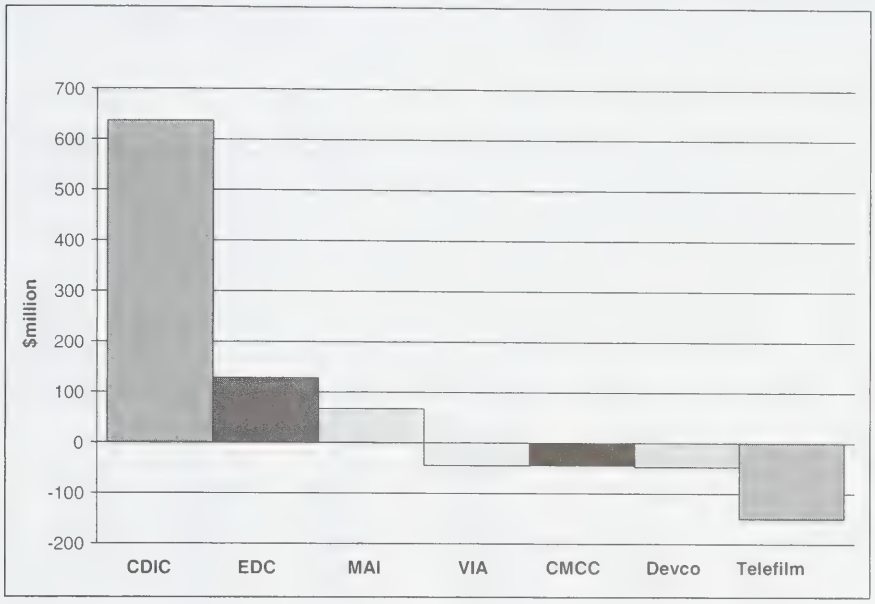
The combined net income for Crown corporations in 1997/98 was $404 million, compared with $37.7 million in 1996/97.

The three corporations with the highest reported net income were the Canada Deposit Insurance Corporation (CDIC) with $637.25 million, the Export Development Corporation (EDC) with $128 million and Marine Atlantic Inc. (MAI) with $67.2 million.

Reported losses were greatest for the Canadian Film Development Corporation (Telefilm) ($150.39 million); the Cape Breton Development Corporation (Devco) ($47.48 million, before the change in accounting policy for Workers' Compensation); the Canadian Museum of Civilization Corporation (CMCC) ($45.28 million); and VIA Rail Canada Inc. (VIA) ($44.51 million).

Exhibit 3 demonstrates the wide range of net incomes among these corporations.

Exhibit 3: Range of Crown Corporations' Net Incomes for 1997/98



The four corporations reporting the largest improvements in their financial performance over the previous year, as measured by an increase in net income, are highlighted in Exhibit 4.

Exhibit 4: Corporations with the Largest Increase in Net Income in 1997/98 ($ million)

Corporation	Net Income (Loss)		Increase in Net Income
	1996/97	1997/98	
Canada Deposit Insurance Corporation	124.79	637.25	512.46
Marine Atlantic Inc.	(75.30)	67.20	142.50
VIA Rail Canada Inc.	(70.10)	(44.51)	25.59
Export Development Corporation	112.00	128.00	16.00

The increased net income of the Canada Deposit Insurance Corporation reflected a substantial decrease in interest costs, from $84.8 million in 1996/97 to $45.9 million in 1997/98, due to the lower amount of outstanding loans from the Consolidated Revenue Fund. Further, the effect on the net income of the adjustment to the allowance and provisions for loss was an increase for 1997/98 of $144.4 million as compared to a decrease of $333.7 million for 1996/97.

The year 1997 was one of dramatic transition for Marine Atlantic Inc. Although the corporation ended the year a smaller organization, it successfully responded to profound external factors, continued to carefully control expenses and generated new revenues.

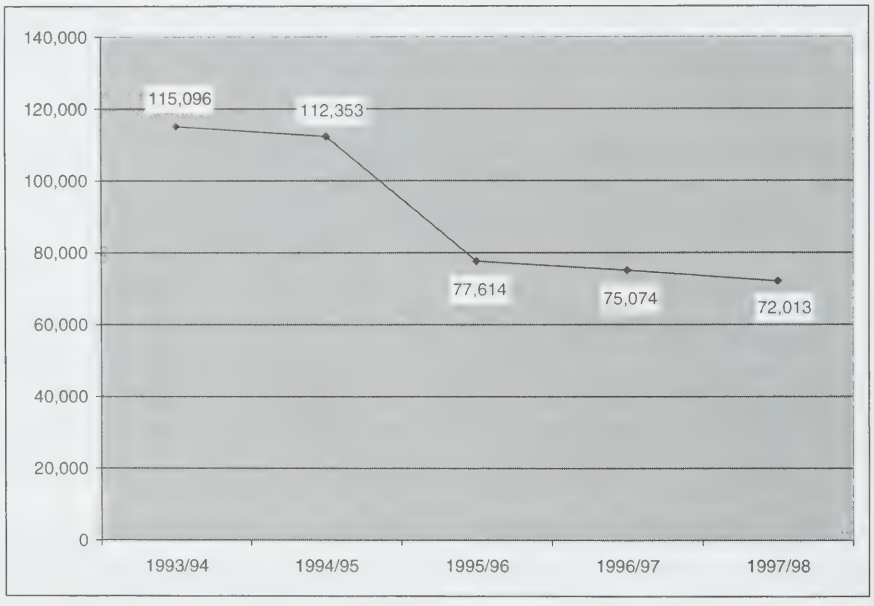
Employment

The overall downward trend in the number of full-time Crown corporation employees continued. In 1997/98, the total number of employees was 72,013, which represents a reduction of 3,061 employees from the previous year. This 4.1-per-cent decrease compares to a 3.3-per-cent decrease between the previous two years.

While a number of Crown corporations reported an increase in the level of employment, this was more than offset by the following largest decreases: 1,211 at Marine Atlantic Inc., 767 at Canada Post Corporation, 583 at the Canadian Broadcasting Corporation, 245 at the Canada Lands Company Limited and 199 at the Canada Mortgage and Housing Corporation.

Exhibit 5 illustrates the downward trend over the last five years. As noted earlier, the decline between 1994/95 and 1995/96 was mainly due to the privatization of the Canadian National Railway.

Exhibit 5: Employment in Crown Corporations, 1993/94 to 1997/98



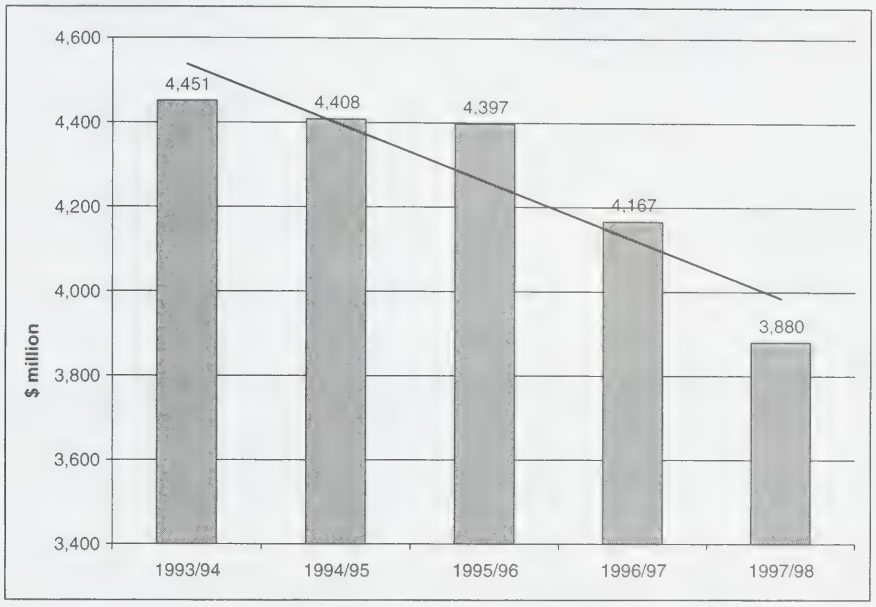
Budgetary Appropriations

Crown corporation funding from Canada, in terms of budgetary appropriations for capital and operating purposes, continued to decline. After reflecting a 5.2-per-cent reduction last year, these appropriations totalled $3,880 million in 1997/98 as compared to

$4,167 million in 1996/97. The largest reductions in appropriation levels were reported by the Canadian Broadcasting Corporation and the Canadian Dairy Commission. They accounted for 44.3 per cent of the total reduction in budgetary appropriations to Crown corporations.

Total budgetary appropriations for the five-year period from 1993/94 to 1997/98, as well as the resulting trendline, are shown in Exhibit 6.

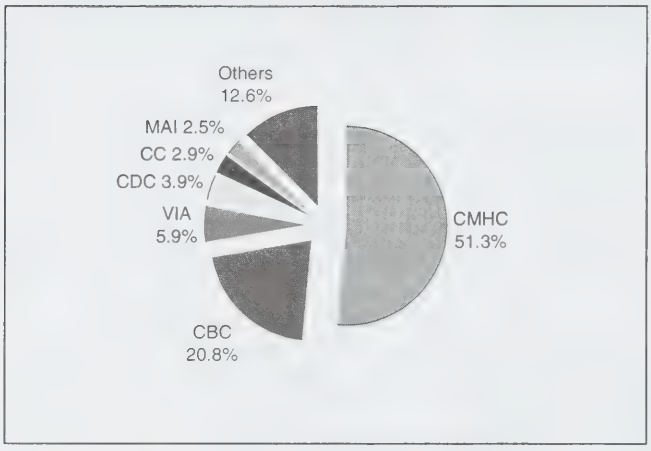
Exhibit 6: Total Budgetary Appropriations, 1993/94 to 1997/98



Of the 22 Crown corporations that received appropriations in 1997/98, six account for 87.4 per cent of the total funding from Canada. These were the Canada Mortgage and Housing Corporation (CMHC), the Canadian Broadcasting Corporation, VIA Rail Canada Inc., the Canadian Dairy Commission, the Canada Council and Marine Atlantic Inc. For CMHC, which was the largest recipient, about 90 per cent of the appropriations flow to households in need under long-term subsidy commitments.

Exhibit 7 provides a summary view of the 1997/98 recipients of budgetary appropriations.

Exhibit 7: Recipients of 1997/98 Budgetary Appropriations



Canada Mortgage and Housing Corporation (CMHC)

Canadian Broadcasting Corporation (CBC)

VIA Rail Canada Inc. (VIA)

Canadian Dairy Commission (CDC)

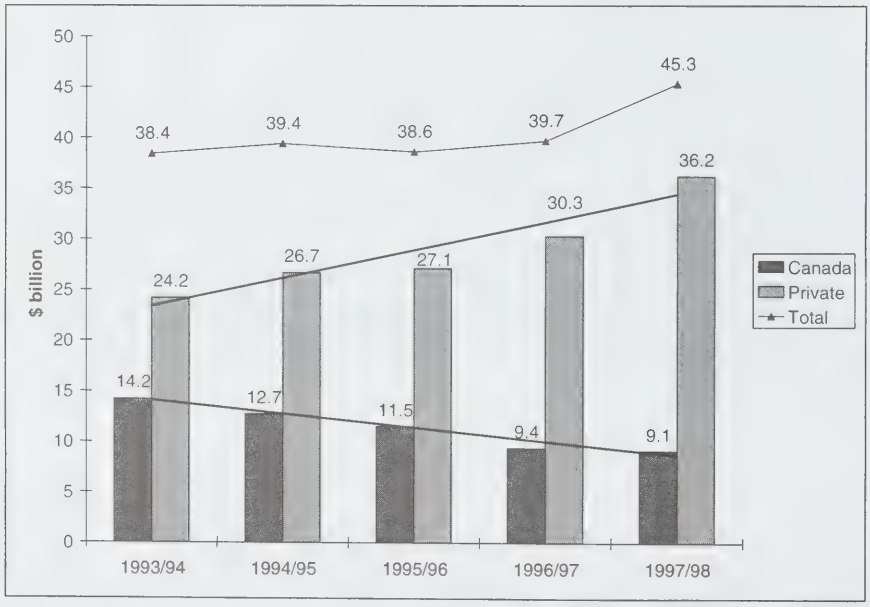
Canada Council (CC)

Marine Atlantic Inc. (MAI)

Debt Obligations

Total debt obligations, consisting of debts payable to Canada and to the private sector, increased by 14.1 per cent, to $45.3 billion in 1997/98 from $39.7 billion in the previous year. Crown corporations continued to substitute borrowings from Canada with borrowings from private lenders. Exhibit 8 clearly shows the downward trend in debt payable to Canada and the upward trend in debt incurred in private markets over the last five years.

Exhibit 8: Total Debt Obligations of Crown Corporations, 1993/94 to 1997/98



The five largest debtors in 1997/98 are the same Crown corporations as last year: the Canada Mortgage and Housing Corporation (CMHC), the Export Development Corporation (EDC), The Canadian Wheat Board (CWB), the Farm Credit Corporation (FCC) and the Business Development Bank of Canada (BDC). Their respective debt load in 1997/98 compared to 1993/94 is illustrated in Exhibit 9.

Exhibit 9: Comparison of Largest Debtors in 1997/98 with 1993/94

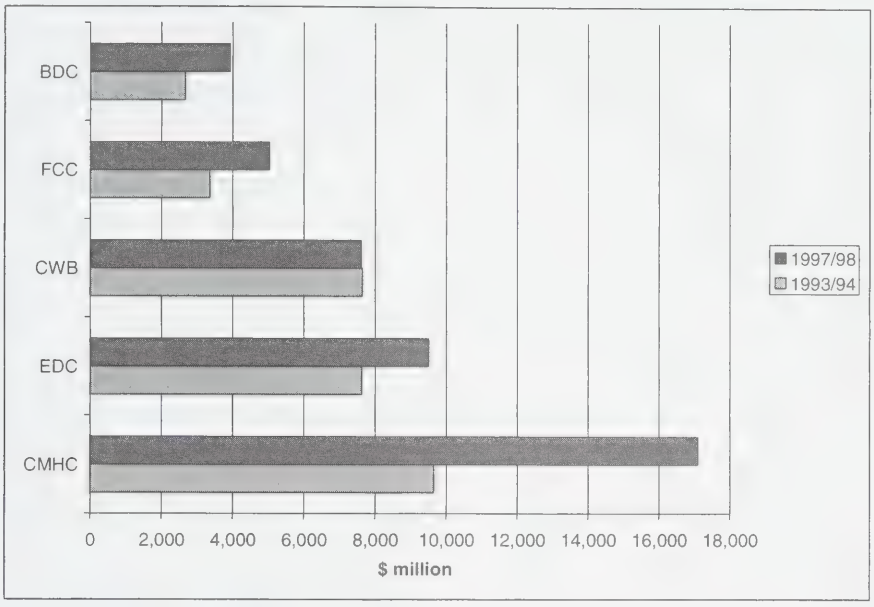


Exhibit 10: Employment and Financial Position Grouped by Ministerial Portfolio (as of year-ends before July 31, 1998; $ million)

Corporation by Ministerial Portfolio	Financial Position				Employment
	Total Assets	*Current Liabilities*	*Long-term Liabilities*	*Equity*	
Canadian Dairy Commission	178.0	74.6	103.4	0.0	62
Farm Credit Corporation	5,706.2	2,212.2	2,944.7	549.3	836
Total Agriculture and Agri-Food	**5,884.2**	**2,286.9**	**3,048.1**	**549.3**	**898**
Canada Council	272.9	0.0	0.0	179.1	133
Canadian Broadcasting Corporation	1,513.1	278.7	1,299.8	(65.4)	6,728
Canadian Film Development Corporation	51.3	11.7	0.9	38.7	140
Canadian Museum of Civilization	31.6	7.4	3.7	20.6	490
Canadian Museum of Nature	44.4	3.8	36.3	4.1	150
Canadian Race Relations Foundation	26.5	0.0	0.6	25.9	5
National Arts Centre Corporation	19.3	9.2	1.0	9.2	231
National Capital Commission	396.7	20.6	15.4	360.7	421
National Gallery of Canada	25.4	5.8	2.4	17.1	251
National Museum of Science and Technology	12.9	3.9	1.1	7.9	233
Total Canadian Heritage	**2,394.3**	**341.2**	**1,361.1**	**597.8**	**8,782**
Bank of Canada [1]	-	-	-	-	1,500
Canada Deposit Insurance Corporation	883.1	407.8	1,014.2	(538.9)	80
Canada Development Investment Corporation	119.7	27.8	0.0	92.0	0
Canada Pension Plan Investment Board [1]	-	-	-	-	0
Petro-Canada Limited	464.0	33.0	427.0	4.0	0
Total Finance	**1,466.8**	**468.6**	**1,441.2**	**(443.0)**	**1,580**
Freshwater Fish Marketing Corporation [1]	-	-	-	-	33
Total Fisheries and Oceans	**0.0**	**0.0**	**0.0**	**0.0**	**33**
International Development Research Centre	55.9	31.9	10.2	13.8	426
Total Foreign Affairs	**55.9**	**31.9**	**10.2**	**13.8**	**426**
Business Development Bank of Canada	4,588.0	2,577.6	1,503.3	507.1	1,085
Enterprise Cape Breton Corporation	10.2	5.4	0.5	4.3	51
Standards Council of Canada	4.1	1.6	0.1	2.4	70
Total Industry	**4,602.3**	**2,584.6**	**1,503.9**	**513.8**	**1,206**
Canadian Commercial Corporation	307.1	287.0	2.5	17.5	85
Export Development Corporation	11,852.0	4,588.0	5,719.0	1,545.0	684
Total International Trade	**12,159.1**	**4,875.0**	**5,721.5**	**1,562.5**	**769**

[1] Financial data are excluded for:

- the Bank of Canada due to the unique nature of its operations; the corresponding data, however, are available in the corporate abstract for the Bank;
- Atomic Energy of Canada Limited and the Freshwater Fish Marketing Corporation since their respective 1997/98 annual reports had not been tabled in Parliament as of October 30, 1998; and
- the Canada Pension Plan Investment Board since its operations had not commenced prior to July 31, 1998.

Exhibit 10: Employment and Financial Position Grouped by Ministerial Portfolio (as of year-ends before July 31, 1998; $ million) *[continued]*

Corporation by Ministerial Portfolio	Financial Position				Employment
	Total Assets	*Current Liabilities*	*Long-term Liabilities*	*Equity*	
Atomic Energy of Canada Limited [1]	-	-	-	-	3,652
Cape Breton Development Corporation	219.4	54.4	251.7	(152.4)	1,738
Canadian Wheat Board, The	8,424.9	2,181.5	6,243.4	0.0	495
Total Natural Resources and CWB	**8,644.3**	**2,235.9**	**6,495.1**	**(152.4)**	**5,885**
Canada Lands Company Limited	418.2	35.6	140.1	242.5	80
Canada Mortgage and Housing Corporation					2,366
Insurance and Guarantee Funds	3,979.0	61.0	3,881.0	37.0	
Corporate Account	16,566.0	2,666.0	13,860.0	40.0	
Minister's Account	0.0	0.0	0.0	0.0	
Canada Post Corporation	2,919.0	993.0	771.0	1,155.0	43,064
Defence Construction (1951) Limited	7.0	3.2	1.8	2.0	210
Old Port of Montreal Corporation Inc. [2]	3.0	1.7	0.0	0.0	81
Queens Quay West Land Corporation	1.9	1.1	45.8	(45.0)	0
Royal Canadian Mint	105.5	26.2	14.6	64.8	603
Total Public Works and Government Services	**23,999.6**	**3,787.7**	**18,714.3**	**1,496.3**	**46,404**
Atlantic Pilotage Authority	3.8	0.7	0.9	2.2	68
Canada Ports Corporation	287.9	31.1	235.3	21.6	197
Great Lakes Pilotage Authority, Ltd.	11.3	3.8	2.3	5.2	84
Halifax Port Corporation	76.3	4.9	0.5	70.9	64
Laurentian Pilotage Authority	10.6	8.3	4.7	2.5	223
Marine Atlantic Inc.	265.6	47.8	238.2	(20.4)	800
Montreal Port Corporation	260.8	15.1	5.2	240.5	335
Pacific Pilotage Authority	7.2	2.9	0.7	3.6	167
Port of Quebec Corporation	62.9	3.0	0.6	59.4	57
Prince Rupert Port Corporation	105.3	1.8	0.0	103.4	17
Saint John Port Corporation	71.3	5.5	0.4	65.3	24
St. John's Port Corporation	18.1	0.7	0.2	17.3	16
St. Lawrence Seaway Authority, The	613.9	25.5	11.6	576.8	773
Jacques Cartier & Champlain Bridges Inc. [3]	16.4	4.6	0.4	11.4	39
Seaway International Bridge Corp. Ltd. [3]	2.1	0.7	1.5	0.0	18
Vancouver Port Corporation	533.1	38.0	129.0	366.1	179
VIA Rail Canada Inc.	688.1	88.9	36.3	563.0	2,969
Total Transport	**3,034.7**	**283.2**	**667.7**	**2,088.8**	**6,030**
Grand Total	**62,241.2**	**16,895.0**	**38,963.1**	**6,226.9**	**72,013**

[2] The Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed to report as a parent Crown corporation.

[3] Two wholly owned subsidiaries have been added to the table because their financial affairs are not consolidated with their parent Crown corporation.

Exhibit 11: Operating Results and Financing Grouped by Ministerial Portfolio (as of year-ends before July 31, 1998; $ million)

	Operating Results	Financing			
		Changes to Net Borrowings			
Corporation by Ministerial Portfolio	Net Income	Private Sector	Canada	Budgetary Appropriations	Dividends
Canadian Dairy Commission	(3.1)	(12.7)	28.1	153.2	0.0
Farm Credit Corporation	41.6	1,027.7	(502.8)	0.0	0.0
Total Agriculture and Agri-Food	**38.5**	**1,015.0**	**(474.6)**	**153.2**	**0.0**
Canada Council	10.2	0.0	0.0	114.0	0.0
Canadian Broadcasting Corporation	(35.5)	(15.9)	0.0	806.5	0.0
Canadian Film Development Corporation	(150.4)	0.0	0.0	81.1	0.0
Canadian Museum of Civilization	(45.3)	0.0	0.0	46.7	0.0
Canadian Museum of Nature	(25.0)	(3.4)	1.7	22.9	0.0
Canadian Race Relations Foundation	1.5	0.0	0.0	0.0	0.0
National Arts Centre Corporation	(17.8)	0.0	0.0	18.5	0.0
National Capital Commission	(14.8)	0.0	0.0	72.8	0.0
National Gallery of Canada	(32.9)	0.0	0.0	36.0	0.0
National Museum of Science and Technology	(20.0)	0.0	0.0	20.0	0.0
Total Canadian Heritage	**(330.1)**	**(19.3)**	**1.7**	**1,218.5**	**0.0**
Bank of Canada [1]	-	-	-	-	-
Canada Deposit Insurance Corporation	637.3	0.0	(463.2)	0.0	0.0
Canada Development Investment Corporation	(2.0)	0.0	0.0	0.0	5.0
Canada Pension Plan Investment Board [1]	-	-	-	-	-
Petro-Canada Limited	1.0	18.0	0.0	0.0	0.0
Total Finance	**636.3**	**18.0**	**(463.2)**	**0.0**	**5.0**
Freshwater Fish Marketing Corporation [1]	-	-	-	-	-
Total Fisheries and Oceans	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Development Research Centre	4.6	0.0	0.0	89.9	0.0
Total Foreign Affairs	**4.6**	**0.0**	**0.0**	**89.9**	**0.0**
Business Development Bank of Canada	45.5	464.7	0.0	0.0	6.0
Enterprise Cape Breton Corporation	(9.5)	(1.0)	0.0	9.8	0.0
Standards Council of Canada	0.0	0.0	0.0	5.1	0.0
Total Industry	**36.0**	**463.7**	**0.0**	**14.9**	**6.0**
Canadian Commercial Corporation	0.3	0.0	0.0	10.7	0.0
Export Development Corporation	128.0	1,828.0	0.0	0.0	0.0
Total International Trade	**128.3**	**1,828.0**	**0.0**	**10.7**	**0.0**

[1] Financial data are excluded for:

- the Bank of Canada due to the unique nature of its operations; the corresponding data, however, are available in the corporate abstract for the Bank;
- Atomic Energy of Canada Limited and the Freshwater Fish Marketing Corporation since their respective 1997/98 annual reports had not been tabled in Parliament as of October 30, 1998; and
- the Canada Pension Plan Investment Board since its operations had not commenced prior to July 31, 1998.

Exhibit 11: Operating Results and Financing Grouped by Ministerial Portfolio (as of year-ends before July 31, 1998; $ million) *[continued]*

Corporation by Ministerial Portfolio	Operating Results	Financing			
		Changes to Net Borrowings			
	Net Income	Private Sector	Canada	Budgetary Appropriations	Dividends
Atomic Energy of Canada Ltd. [1]	-	-	-	-	-
Cape Breton Development Corporation	(187.2)	0.0	22.1	22.1	0.0
Canadian Wheat Board, The	0.0	(13.9)	0.0	0.0	0.0
Total Natural Resources and CWB	**(187.2)**	**(13.9)**	**22.1**	**22.1**	**0.0**
Canada Lands Company Ltd.	13.3	(5.5)	18.7	0.0	20.4
Canada Mortgage and Housing Corporation	-	-	-	-	-
Insurance and Guarantee Funds	(11.0)	952.0	0.0	0.0	0.0
Corporate Account	11.0	1,698.6	(270.5)	0.0	0.0
Minister's Account	0.0	0.0	0.0	1,991.0	0.0
Canada Post Corporation	36.0	(4.6)	0.0	14.0	10.0
Defence Construction (1951) Ltd.	0.3	0.0	0.0	0.0	0.0
Old Port of Montreal Corporation Inc. [2]	(7.4)	0.0	0.0	9.0	0.0
Queens Quay West Land Corporation	(0.3)	0.0	0.0	4.1	0.0
Royal Canadian Mint	3.9	10.0	(0.1)	0.0	0.0
Total Public Works and Government Services	**45.8**	**2,650.5**	**(251.9)**	**2,018.1**	**30.4**
Atlantic Pilotage Authority	1.0	0.0	0.0	0.0	0.0
Canada Ports Corporation	8.8	(3.3)	(0.1)	(0.5)	0.4
Great Lakes Pilotage Authority, Limited	1.2	0.0	0.0	0.0	0.0
Halifax Port Corporation	3.1	0.0	0.0	0.0	0.5
Laurentian Pilotage Authority	(0.8)	(1.1)	0.0	0.0	0.0
Marine Atlantic Inc.	67.2	0.0	0.0	98.5	0.0
Montreal Port Corporation	12.4	0.0	(0.7)	0.0	3.2
Pacific Pilotage Authority	1.3	0.0	0.0	0.0	0.0
Port of Quebec Corporation	0.3	0.0	0.0	0.0	0.0
Prince Rupert Port Corporation	2.7	0.0	(10.0)	0.0	0.0
Saint John Port Corporation	1.5	0.0	0.0	0.0	0.1
St. John's Port Corporation	0.6	0.0	0.0	0.0	0.0
St. Lawrence Seaway Authority, The	(1.4)	0.0	0.0	0.0	0.0
Jacques Cartier & Champlain Bridges Inc. [3]	(26.6)	0.0	0.0	25.5	0.0
Seaway International Bridge Corp. Ltd. [3]	0.0	0.0	0.0	0.0	0.0
Vancouver Port Corporation	5.1	(1.3)	(1.7)	0.0	0.0
VIA Rail Canada Inc.	(44.5)	0.0	0.0	228.7	0.0
Total Transport	**31.8**	**(5.7)**	**(12.5)**	**352.2**	**4.2**
Grand Total	**404.0**	**5,936.3**	**(1,178.3)**	**3,879.7**	**45.6**

[2] The Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed to report as a parent Crown corporation.

[3] Two wholly owned subsidiaries have been added to the table because their financial affairs are not consolidated with their parent Crown corporation.

Highlights of Corporate Initiatives

Increased market competition and reduced levels of funding from government have led Crown corporations to seek creative solutions in order to continue to provide cost-effective services to their clients and customers. A number of Crown corporations indicated in their annual reports that service improvements and innovative measures were undertaken to maximize cost efficiencies, add value for customers and seize opportunities for growth.

This chapter highlights some of these activities as reported by Crown corporations in their most recently tabled annual reports as of October 30, 1998.

The corporations' activities have been categorized to reflect initiatives related to the following: providing service to customers and clients; use of technology; partnering arrangements; and exports of corporate expertise and other international activities. Examples of contributions to Canada's social and economic well-being as reported by Crown corporations are noted, as well as those that improve Canadians' exporting potential. Several specific corporate actions related to the environment and to Year 2000 compliance are also included. Individual annual reports provide further details on each of the corporations' activities.

Improving Service to Clients and Customers

Rationalization or simplification of service offerings as well as the effective use of technology made it possible for many Crown corporations to improve service to their clientele. Some examples are noted below.

During 1997/98, Canada Post Corporation began to standardize and simplify its distribution products in response to customer feedback and input. In addition, the corporation reported that it is investing in improving services within and between smaller, non-urban communities in the same region.

To ensure that its customers receive quality products and services at competitive prices, the Farm Credit Corporation restructured and re-engineered its business processes, streamlining service delivery channels.

The St. Lawrence Seaway Authority reported that the joint Canada/U.S. vessel inspection program based in Montreal now replaces the previous dual inspections, reducing transit times for foreign vessels and agency costs. Additional elements were added to the inspection process, bringing a reduction of 44 per cent in the number of accidents and 66 per cent in the cost of damages to vessels in the past year.

In October 1997, the Standards Council of Canada launched a new Internet-based resource with searchable databases containing information on international standards; national standards from Canada, France, Britain, Germany and Australia; federal regulations referencing standards; World Trade Organization and North American Free Trade Agreement notifications; and organizations accredited by the Standards Council.

The Canadian Broadcasting Corporation provided a range of programming from the arts to news to sports and items of interest to children on the World Wide Web. Several radio and television programs inaugurated or upgraded their Internet sites. Partnerships also made it possible to create sites associated with special events, including special coverage of the federal election campaign and the Nagano Olympic Games.

Another example of the use of technology to serve customers better included the Canada Mortgage and Housing Corporation's (CMHC's) AffordAbility software, which was designed for use on most personal computers. The software helps consumers access various home-purchase, mortgage-renewal and renovation-loan scenarios in the privacy of their own homes. In partnership with The Conference Board of Canada, CMHC offers the Canadian Housing Markets Online Service, which provides comprehensive information on housing in Canada and electronic access to many of CMHC's reports on housing markets. This service is available through the Internet.

The Export Development Corporation reported that its investments in technology over the past few years have contributed to its ability to provide rapid, seamless service to exporters of all sizes. For example, the average length of time it took to issue a credit approval decreased to two days in 1997 even as the corporation's short-term volumes

grew by 29 per cent. More than 63 per cent of the credit approvals were issued within 24 hours.

The Great Lakes Pilotage Authority, Ltd. developed and implemented a computerized scheduling system for its pilots to allow more timely dispatches and operation reports, and to increase the accuracy in tracking pilots and vessels.

The International Development Research Centre (IDRC) reported that the Bella*net* Secretariat was established to support collaboration within the development community through the use of information and communication technologies (ICTs). IDRC and six other organizations, including one in Sweden and one in the Netherlands, provide funding. In 1997, Bella*net* underwent a mid-term review that confirmed an earlier decision to focus less on specific development issues and more on working with development partners that are committed to the idea of collaboration and that are open to experimenting with ICTs to reach their goals.

The National Capital Commission (NCC) reported that technology, such as the NCC's Web site, is allowing the commission to reach outward to new and much larger markets. In addition, the NCC is investing in state-of-the-art technology to keep pace with federal partners and to enable fewer employees to maintain former levels of service.

With the production of an audio guide for the Canadian permanent collection, the National Gallery of Canada became the first Canadian art museum to apply audio guide expertise — traditionally reserved for special exhibitions — to a permanent collection. An audio guide was also produced for Renoir's Portraits and resulted in rentals by more than 109,000 visitors to the exhibition, a level of use five times higher than for any previous exhibition.

The National Museum of Science and Technology Corporation continued to build on previous efforts to digitize assets and widen their availability through electronic media. Early in the year, the National Museum of Science and Technology completed a multimedia database on the Avro Arrow in conjunction with Bell Canada and Digital Renaissance. It also made progress on digitizing its collection of archival photographs. The corporation also redesigned its Web sites for both the National Museum of Science and Technology and the Agriculture Museum, developed new content including educational support materials aimed at teachers and students. The corporation noted that an evaluation of the museum's Web site revealed exponential growth in the use of the site attributed to the topical educational material.

VIA Rail Canada Inc. reported that it improved delivery service for its customers, offering tickets by mail within five days of booking. It added new trains serving Kingston and Ottawa. It introduced new intermodal services in Cobourg and Brockville. It enhanced its on-board services. It launched a self-booking service for travellers on the Internet. In response to customer demand, VIA added new frequencies to the Ottawa–Toronto service, restored dedicated service between Toronto and Kingston and expanded its daylight service between Jasper and Prince Rupert.

Seeking Feedback

There was a noted effort by Crown corporations to continually seek to raise the level of satisfaction of their clients with the services and products they offer. A number of corporations indicated that customer satisfaction surveys were conducted annually. As well, several Crown corporations reported on the results of customer surveys that they had undertaken during the past year.

Corporations that reported that they had carried out customer surveys included the Business Development Bank of Canada, the Canada Deposit Insurance Corporation, Canada Post Corporation, the Canadian Commercial Corporation, the Canadian Museum of Nature, the Export Development Corporation, the Farm Credit Corporation, Marine Atlantic Inc., the National Capital Commission, the National Museum of Science and Technology Corporation and the Standards Council of Canada.

The Business Development Bank of Canada reported that over 85 per cent of clients indicated that they were satisfied with the quality of the corporation's services, compared to 81 per cent the previous year.

The Canada Deposit Insurance Corporation (CDIC) conducted a national telephone survey to research the awareness of Canadians and their attitudes towards deposit insurance. The research results led to the development of a communications plan for making information on deposit insurance more readily available to consumers. In addition, as a result of informal customer surveys, CDIC developed a series of information sheets on some of the most commonly asked questions about deposit insurance.

The Canadian Museum of Nature reported that visitor survey and focus group sessions related to the 1997 summer exhibit, Arctic Odyssey, combined with a critical appraisal and a tracking study will allow the museum to choose which elements will be included in the planned travelling exhibit.

The National Museum of Science and Technology Corporation has established a survey program conducted continually in two specific areas: visitor satisfaction with their museum experience, and teacher satisfaction with educational programs. The corporation reported on both the visitor and teacher satisfaction results, comparing them with the two previous years.

Following the creation of specialized processing centres at the beginning of 1997/98, the Farm Credit Corporation (FCC) asked a sample group of 220 customers if they had noticed a difference in the level of service they received. FCC reported that the majority of respondents told the corporation that FCC had supplied optimum service and many noted that service was faster.

During 1997, Marine Atlantic Inc. conducted a customer satisfaction survey with a total of 659 customers randomly selected during the peak travel season. Over 96 per cent of

those surveyed expressed satisfaction with the service, and 75 per cent said they were very satisfied. Reservations personnel received a 99-per-cent satisfaction rating.

The National Capital Commission carried out a national survey in order to find out how Canadians want to mark the millennium. The commission reported that large numbers of Canadians want to see this milestone celebrated in some way in the National Capital Region.

During 1997/98, the Standards Council of Canada developed a new three-year strategic plan. The development process for the plan included a customer satisfaction survey to determine where the corporation was succeeding and where action was needed.

Since 1996/97, a Customer Satisfaction Index has been produced quarterly for Canada Post Corporation by an independent research firm, based on random interviews with a statistically valid sample of some 2,350 Canada Post customers.

In 1997/98, for the first time, the Canadian Commercial Corporation (CCC) adopted a client satisfaction index, which is based on a client's overall assessment of CCC after considering the quality and value of individual services they have used. CCC's 1997/98 survey produced a client satisfaction index of 6.7 out of 10.

The Export Development Corporation (EDC) reported that a component of its annual customer survey is the Customer Satisfaction Index, which rates its customers' overall satisfaction with EDC as well as their likelihood of recommending EDC to their business associates. EDC's 1997 score was 79.5 out of 100 against a target of 80 out of 100.

Defence Construction (1951) Limited noted that its analysis of client satisfaction has been revised to include the overall project rating, which is the ratio of the number of problems acted upon to the number initially reported by clients, and the rolling up of contracting issues into overall satisfaction tracking.

The Royal Canadian Mint reported that the results of its 1996 customer survey shaped its approach to the commercial market in 1997, and that another survey in 1998 will continue tracking customer response to the Mint's new products and services. In its 1997 annual report, the Mint also included a feedback form to solicit comments on the content and presentation of its annual report, as well as to seek suggestions for improving the report.

Several corporations reported on their public consultation activities during the year. These included the Canada Lands Company Limited, regarding the development of the Downsview lands in Toronto, Ontario, and the redevelopment of the former railway shops in Moncton, New Brunswick. The Canadian Dairy Commission and The Canadian Wheat Board noted the various consultations with their respective stakeholders. The Enterprise Cape Breton Corporation carried out consultations to assist it in shaping its strategic direction. The Vancouver Port Corporation organized two Port Users Conferences in 1997. It also noted that its staff made over 1,000 personal visits to their customers in Canada, the U.S. and elsewhere to listen to their needs, to develop

innovative solutions and services for existing customers and to create opportunities to convince others to choose Port Vancouver.

In March 1998, Canada Post held a conference in Toronto attended by key business customers from Canada, the United States and thirty international postal services. The conference was designed to keep customers informed and to obtain their feedback. Canada Post also receives independent advice on service and policy matters from the eight regional Postal Service Customer Councils, whose volunteer members represent the interests of business and consumers and gather information from medium-sized and small businesses.

During 1997/98, several regional offices of the Canadian Film Development Corporation held frequent consultations with their respective client groups within the framework of the feature film committees established by the corporation in 1997 for the Canadian Television and Cable Production Fund[1] policy review for 1998/99 and during the preparation of regional business plans.

Working with Others

Over half of the Crown corporations reported on their use of partnerships or partnering arrangements during the year in an effort to reduce costs, improve service to clients or develop new markets. Some examples are as follows.

The redevelopment of the Bank of Canada's system for processing data collected from financial institutions, which is also used by the Office of the Superintendent of Financial Institutions and the Canada Deposit Insurance Corporation, was undertaken in 1997 in collaboration with the two organizations under a cost-sharing agreement.

The Council of Crown Financial Institutions, which was formed in 1996 and consisted of the Business Development Bank of Canada, the Canadian Commercial Corporation, the Farm Credit Corporation and the Export Development Corporation (EDC), undertook a review of opportunities for closer collaboration among the four Crown corporations. Among other things, this review has led to the establishment of a seamless referral system for prospective customers, to better direct them to the appropriate Crown service provider, cross training of staff, links to relevant Internet sites, and other communications and marketing opportunities. The council's work is now complete. EDC reported that it is expected that the council will be replaced by meetings of the chief executive officers in order that the network of contacts and communication among the Crown financial institutions will continue to expand. As well, the four corporations will report to the public annually on their business results in support of small and medium-sized corporations.

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[1] Now called the Canadian Television Fund.

The Canadian Commercial Corporation's Progress Payment Program operates in conjunction with a number of financial institutions to help small and medium-sized businesses to access new sources of pre-shipment financing.

The Farm Credit Corporation's Agribusiness Division worked with other financial institutions and credit unions to finance various enterprises that process, manufacture, transport, store or transform farm inputs and outputs. Of the 15,488 loan applications that were approved, 16 per cent were a direct result of partnerships and alliances.

During 1997, the Canada Mortgage and Housing Corporation (CMHC) continued to provide its services through co-operation and partnerships with various levels of government, community-based, non-profit and co-operative housing organizations and builders' associations, among others. As well, following consultations with First Nations, CMHC's On-reserve Non-profit Housing Program was amended in 1997. The new program is based on a partnership with First Nations that allows for greater flexibility and control at the community level. In addition, CMHC has been working with the industry to develop a more unified and qualified self-regulated private home inspection profession in Canada.

The Canadian Broadcasting Corporation (CBC) reported on the various programming partnerships entered into by CBC English Radio, French Radio, English Television, French Television and Le Réseau de l'information.

The International Development Research Centre noted that a new awards program between the centre and the Social Sciences and Humanities Research Council, the 'Canada in the World' grant, will enable Canadian researchers to examine issues that will affect Canada's relationship with Asia and Latin America in the years to come.

The three museum corporations, the National Gallery of Canada and the National Arts Centre Corporation reported on a varied and wide range of partnering and sponsorships in order to enhance their programming activities.

The National Capital Commission (NCC) listed its numerous partners and sponsors, including governments at all levels, businesses, non-profit associations and private individuals. The commission noted that it has ongoing relationships with some 144 organizations and 100 sponsors. The NCC also noted that volunteers donated 1,130 hours to clearing debris-strewn trails as a result of the 1998 Ice Storm and that some 1,300 volunteers contributed over 20,000 hours of their time during the year.

Canada Lands Company Limited completed a long-term lease arrangement with the TrizecHahn Corporation to revitalize the base of the CN Tower and the Tower itself through major investments in entertainment and retail infrastructure and operations.

In May 1997, the St. Catharines Hydro-Electric Commission and The St. Lawrence Seaway Authority signed a 30-year lease agreement, under which the commission will operate the authority's generating station. This agreement went into effect in the fall of 1997.

During 1997/98, the Standards Council of Canada signed a partnership agreement with IHS Canada/Micromedia Limited that will enable one-stop shopping, and hence better and faster service, for Canadian purchasers of foreign and international standards.

The Great Lakes Pilotage Authority, Ltd. (GLPA) provides all dispatching and pilot boat services in Port Weller to the U.S. District No. 1 pilots without charge; and the U.S. Pilots Association provides, without charge, pilot boat services for the GLPA at Cape Vincent, New York. The Laurentian Pilotage Authority renewed the Memorandum of Understanding with the Port of Quebec Corporation for joint dispatching, pilotage and port services.

The Canadian Dairy Information Centre Web site provides a one-stop information centre on the Canadian industry and international markets for dairy products and dairy genetics. The site involves a partnership between the Dairy Farmers of Canada, the National Dairy Council of Canada, Agriculture and Agri-Food Canada and the Canadian Dairy Commission.

The Vancouver Port Corporation (VPC) worked with both the Canadian National Railway and the Canadian Pacific Railway to position Port Vancouver as 'North America's Gateway' for container lines and shippers. The completion of the Deltaport container terminal was the result of a partnership of VPC, TSI Terminal Systems Inc. and the two railway companies. In late 1997, the Vancouver Port Corporation partnered with Inland Container Terminals to support the activities of importers and exporters using Deltaport.

VIA Rail Canada Inc. established new partnerships in various parts of its business, including its on-board services and its frequent traveller program. It negotiated an agreement with Amtrak to create joint North American Railpasses in 1998, valid for travel on both carriers' networks across the continent. It entered into a partnership with Home Hardware, allowing VIA Rail to reach potential customers through the chain's 960 stores in Canada. In the second year of partnerships with Chambers of Commerce and Boards of Trade, VIA continued to develop community-based programs and special projects throughout the Quebec City–Windsor corridor. It extended an interline agreement with the Trentway Wager bus company, transforming VIA's Cobourg and Brockville stations into intermodal facilities handling both train and bus departures.

In addition to other partnership activity, the Enterprise Cape Breton Corporation continued to support familiarization tours as a major means of co-operation with tourism operators to encourage travel agents, wholesalers and media to visit Cape Breton. In 1997/98 the corporation invested $70,000, which leveraged private and public partner contributions of $500,000 to co-ordinate 55 visits – leading to an estimated $15 million in 'free' publicity through various magazines and other media.

Exporting Crown Corporations' Expertise and Other International Activities

The expertise that has been developed in Crown corporations is also being marketed in other countries. For example, Canada Post Corporation continues to market its expertise through its international consulting subsidiary, Canada Post Systems Management Ltd., which in 1997/98 signed a $4.3-million contract with Guatemala to provide postal operations advisory services.

Some corporations are also active participants in the international community most closely related to the corporation's activities. For example, throughout the year, staff of the Canada Deposit Insurance Corporation (CDIC) advised Jamaica, Japan, Lithuania, the Philippines and Taiwan, among others, on deposit insurance matters. CDIC also provided information to Hungary, Korea and Norway at their request and participated in international conferences such as those hosted by the South East Asian Central Banks in Malaysia.

In order to showcase Canadian housing excellence, the Canada Mortgage and Housing Corporation delivered and participated in many seminars in 1997 in several countries, hosted visiting delegations to Canada, and signed or worked on establishing agreements with various housing agencies in other countries.

Bank of Canada staff participate in regular meetings of the major international economic and financial organizations, sharing views and information on domestic and international issues related to monetary policy. During 1997, special attention was paid to developments in Asia and their impact globally as well as on the domestic economy. Bank employees also took part in technical assistance programs to developing countries under the auspices of the International Monetary Fund and the World Bank and in co-operation with the Canadian International Development Agency.

The Canadian Museum of Civilization Corporation entered into an agreement to become the first international chapter in the National Children's Film Festival; as well, it organized and participated in the India-Canada Museum Seminar held in Delhi in January 1998. It also undertook a travelling exhibition in Copenhagen, Denmark; one that went to five cities in Taiwan; and several different exhibitions that went to cities in the U.S.

The Canadian Museum of Nature helped implement the convention on Biological Diversity via Canadian Centre for Biodiversity-organized missions to Côte d'Ivoire and Burkina Faso. Preliminary visits to two more West African countries, Togo and Benin, were also made.

The National Gallery of Canada worked with art organizations and embassies to contribute in several ways to Canada's international relations. The Gallery loaned works to 30 institutions in the United States, Austria, Belgium, Bermuda, Czech Republic, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, England and Venezuela. As well, the Canadian Museum of Contemporary Photography loaned works

to a museum in England and a gallery in the U.S. The Gallery became one of the co-founders of AMICO (Art Museum Image Consortium), an international virtual library that will eventually feature the great art collections of the world.

The International Development Research Centre (IDRC) carried out a number of research projects in Asia, Africa, Latin America and the Caribbean. Africa received the bulk of IDRC's support in 1997/98, that is, 33.2 per cent. Asia received 14 per cent and Latin America, 13.2 per cent. The balance was appropriated for global and domestic activities.

VIA Rail delivered a presentation on quality and a workshop on Performance Enhancement at the National Conference on Federal Quality in Washington, D.C. VIA noted that it was the first organization from outside the U.S. to have been invited to do so.

Contributing to Canada's Social and Economic Development

Several Crown corporations identified specific contributions to the government's social and economic agenda, as well as to disaster assistance, in addition to reporting on results related to their specific mandates.

The Canada Mortgage and Housing Corporation reported that it created jobs by extending housing rehabilitation programs. As well, the corporation helped young people develop skills through the Government of Canada's youth employment strategy by working with First Nations and Inuit to create youth housing internships.

Canada Lands Company Limited noted that by bringing non-productive land into productive use, the corporation delivers a wide range of long-term economic benefits from its development and revitalization projects. A major priority at each location is to maximize economic benefits to each of the local communities in which Canada Lands is creating value. Most of the corporation's major activities create both significant short- and long-term employment opportunities. These include employment opportunities generated in the planning and pre-development stage of projects given that Canada Lands outsources many functions. As well, short-term jobs are created in the construction phase and permanent jobs will be created on the properties Canada Lands brings into productive use.

The Export Development Corporation (EDC) noted that although the corporation operates as a commercial financial institution, its public policy role puts an emphasis on being an export maximizer rather than a profit maximizer. It indicated that the substantial increases in business activity over the last several years and the corporation's growing support for small and medium-sized enterprises (SMEs) are indicators of EDC's success in this regard. EDC also noted, however, that the achievement of a healthy bottom line was also critical to the corporation's goal of internally generating the capital necessary for additional risk taking and growth in customer support.

To attract new cargoes and ships and to promote greater use of the Seaway, staff at The St. Lawrence Seaway Authority participated in a variety of trade missions, and international conferences and exhibitions.

Several Crown corporations reported that they had provided assistance to help those affected by the Manitoba flood in May 1997. These included Canada Post, the Canada Mortgage and Housing Corporation, the Farm Credit Corporation (FCC) and The Canadian Wheat Board. Corporations such as Canada Post and FCC also reported on the assistance that they had given during the January 1998 Ice Storm in eastern Ontario and western Quebec.

Improving Canada's Exporting Potential

Several Crown corporations provide assistance to businesses that are either current or potential exporters. Others have the exporting of Canadian products as a primary or complementary function.

During 1997/98, the Business Development Bank of Canada reported an increase in its loans to knowledge-based, high technology and export-oriented small businesses by more than 25 per cent over the previous year.

In December 1997, the Canada Mortgage and Housing Corporation (CMHC) launched the Canadian Housing Export Centre whose purpose is to research international market opportunities and help match them with companies involved in exporting housing products and services. In addition, the Centre's staff will broker partnerships between Canadian companies and potential partners in target countries. As part of the Team Canada partnership, CMHC participates in two national sector teams on building products and on construction, architectural and engineering services. As well, the corporation chairs an interdepartmental committee on housing exports which is comprised of representatives from the Department of Foreign Affairs and International Trade, Industry Canada, the National Research Council and Natural Resources Canada.

The Canadian Commercial Corporation (CCC) assists exporters in the completion of export sales to the governments of other nations. The corporation makes Canadian companies aware of opportunities in the U.S. All opportunities that are open to Canadian firms are posted on the Canadian MERX system and on CCC's Web site. During 1997/98, over 75 per cent of the companies using CCC's services were small to medium-sized enterprises with less than $25 million in annual sales. CCC also increased its participation in trade missions and established an outreach program to U.S. buying agencies that will form the basis of a program whereby Canadian sources of supply can be directly introduced to potential American buyers.

The Canadian Dairy Commission issues permits to exporters on a transaction by transaction basis. The number of permits and the volume of milk covered by its permits depend on the quantity of milk produced that is not required for the domestic market and, thus, is available to sell on foreign markets. During the 1996/97 dairy year, the

commission's traditional markets of Mexico, North Africa and Cuba accounted for more than two thirds of Canadian exports of skim milk powder while about 75 per cent of butter exports were directed to the North African and Russian markets.

The Canadian Film Development Corporation (Telefilm) provided assistance to Canadian firms with promotion campaign financing, advertising and other marketing activities carried out abroad by these firms. Telefilm also administers international co-production agreements on behalf of the Canadian government. During 1997/98, seven new agreements were signed in addition to its ongoing activities with a number of European and African countries. Telefilm also signed a Letter of Intent regarding feature film development with the China Film Co-Production Corporation. With respect to international festivals, Telefilm entered a total of 942 Canadian works in more than 100 festivals held around the world.

The Canadian Wheat Board (CWB) is a major world exporter of grain. In addition to sales to its traditional markets, during 1997 the CWB sold wheat to Vietnam, signed a letter of agreement with seven flour millers in Thailand aimed at exporting more than one million tonnes of Canadian wheat over the next five years, and made the first shipment of Canadian wheat to the United Arab Emirates since 1989.

The Cape Breton Development Corporation reported that it resumed its international sales of coal with a shipment to Denmark in June 1997.

The Enterprise Cape Breton Corporation indicated that it is working with firms in the environmental industry in Cape Breton with a view to helping local companies export their services.

The Export Development Corporation (EDC) provides a range of risk management services and financing products to assist companies wishing to sell in foreign markets. During 1997, EDC worked with 3,711 customers – an increase of 18 per cent over the previous year – to help them generate more than $28 billion in sales and foreign investments. This represented volume growth of over 30 per cent over 1996.

During 1997/98, the Standards Council of Canada co-ordinated the participation of some 3,000 Canadian volunteers in the work of two of the world's major voluntary standards development bodies – the International Organization for Standardization and the International Electrotechnical Commission. In addition, the council concluded a number of agreements during the year aimed at supporting Canadian exporters by promoting the international acceptance of Canadian test reports, certifications and registrations.

Corporate Environmental Activities

Examples of corporations reporting on their environmental activities included the following.

Canada Lands Company Limited undertook a major remediation program at the former railway shops in Moncton, New Brunswick using extensive, open public consultation.

The Cape Breton Development Corporation reported that a major phase of the environmental project for closure of the Victoria Junction Tailings Basin was completed during 1997/98.

The National Capital Commission (NCC) reported that during the year it had carried out 10 environmental assessments, environmental analyses for various development proposals and had prepared seven Environmental Priority Maps as the basis for remedial work in the future. The commission also reported on the steps it had taken to conform with the *Alternative Fuels Act* and that a review of NCC fleet performance by Natural Resources Canada had shown that the NCC has reduced emissions by 53 per cent over the 1996/97 levels.

In 1997, the Royal Canadian Mint undertook an environmental audit of its Ottawa and Winnipeg facilities. The Mint reported that it has developed an Environmental Management System for the Mint, with six priorities defined for implementation in 1998 and longer-term priorities identified for 1999 and beyond.

The Vancouver Port Corporation (VPC), with the co-operation of the Chamber of Shipping of British Columbia, introduced a new Ballast Water Exchange Program, becoming the first port in Canada to make mid-ocean deballasting mandatory instead of voluntary. The VPC designed and supervised the installation of habitat rafts at Ballantyne as partial mitigation for Centerm fill requirements. As well, the VPC participated with the Burrard Inlet Environmental Action Program in a project to map shoreline habitat.

To address concerns expressed by the environmental community when the Aylmer, Quebec site was allocated, the Canadian Museum of Nature developed, in partnership with a number of experts and public interest groups, a stewardship plan for the management of its Natural Heritage Building site and Museum facility. The museum also works with other organizations concerned with the environment through the Canadian Centre for Biodiversity.

The Farm Credit Corporation noted that it works with the industry to deal with environmental challenges by including environmental assessment standards in the lending process, which ensure agricultural operations meet accepted environmental standards; and by referring customers to environmental experts when necessary. The corporation also promotes environmental awareness in customer publications.

Year 2000 Compliance

A number of Crown corporations reported on their Year 2000 compliance activities.

In April 1997, the Bank of Canada completed an internal Year 2000 impact assessment, and a central project office is ensuring that critical internal systems will continue to function properly. In support of the overall functioning of the Canadian financial system, the Bank is participating in discussions with federal government departments and with Industry Canada's Year 2000 Task Force. It is also working with domestic and international financial communities to raise awareness, encourage resolution, share best

practices and monitor the state of readiness. The Bank's plan is to have internal systems completed by the end of 1998 and, in 1999, to focus on testing shared systems with its business partners and developing the necessary contingency plans.

The Business Development Bank of Canada (BDC) reported that it is taking the necessary action towards ensuring that its own systems are Year 2000 ready. Also, in March 1998, BDC launched the Year 2000 Ready program, which is a $50-million loan program that will allow small business owners to obtain the financial backing necessary to make software and hardware conversions without straining other operations or compromising their working capital.

The Canada Deposit Insurance Corporation (CDIC) expects to complete the implementation and testing phases by mid-1999, which will include a full Year 2000 simulation test. It also indicated that it expects most financial institutions to be fully Year 2000 compliant before the end of 1998. Over the course of the next year, CDIC will monitor closely the Year 2000 readiness of its member institutions.

Canada Post's Year 2000 program, which includes ongoing communication with major customers, suppliers, benefit providers, financial institutions and other resources that are considered critical to the health of Canada Post to ensure that programs are on track and synchronized, is expected to be completed by mid-1999. In its 1997/98 annual report, Canada Post also indicated that it was developing a contingency plan for implementation in the event significant problems occur.

The Canadian Broadcasting Corporation reported that, as of March 1998, inventories of all information technology applications and risk assessments of these applications had been completed, and conversion of non-compliant programs had started. A computer replacement infrastructure program was introduced to ensure that all PC workstations are Year 2000 compliant, and that older PCs are not used in any operational activities. An inventory of all other Year 2000 sensitive equipment and software was undertaken, and plans for testing were under way.

The Canadian Museum of Nature indicated that it carried out major improvements to its information technology infrastructure during 1997/98, including the purchase of software and hardware to ensure Year 2000 compliance. The Canadian Wheat Board indicated that it had begun to correct the Year 2000 problem in 1995, pioneering some techniques that are now in use outside the corporation. The Cape Breton Development Corporation noted that it has been working on issues related to the Year 2000 problem for more than two years and expects to be Year 2000 compliant by March 31, 1999. Defence Construction (1951) Limited has vendor assurances that the main enterprise software is compliant with Year 2000 requirements. Plans have been made for bringing other systems into line and further third party compliances are being sought.

The Farm Credit Corporation (FCC) reported that it is well on its way to ensuring Year 2000 compliance of all systems, supporting hardware and software components. FCC is working with software vendors to ensure that existing products are Year 2000 compliant.

Completion is targeted for December 1998, allowing a full year for quality assurance prior to the Year 2000. The Laurentian Pilotage Authority is having its computerized pilotage billing and assignment system rewritten in order to avoid Year 2000 problems. It is taking advantage of this overhaul to improve its system to better meet the needs of clients, pilots and management.

Other corporations that indicated in their annual reports that they were addressing Year 2000 compliance issues included the Canada Lands Company Limited, the International Development Research Centre, Marine Atlantic Inc., the Royal Canadian Mint, the National Capital Commission and the Standards Council of Canada.

Corporate Abstracts

Introduction

Corporate Abstracts describes each parent Crown corporation's mandate, activities and financial position.

The abstract for each corporation begins by identifying the key individuals responsible for the management and accountability of the corporation, including the appropriate minister, the chairperson of the board of directors, the chief executive officer and the external auditors. Each corporation's contact information is also provided.

This chapter identifies the legislative authority under which the corporation was incorporated and its scheduling under the *Financial Administration Act*. In addition, information is provided on whether or not the corporation is an agent of Her Majesty. A corporation that has agency status enjoys the immunities, privileges and prerogatives that are enjoyed by the Crown and can bind the Crown by its acts.

Sources for this information include the corporation's most recently tabled annual report. Readers wishing to obtain further information about a particular corporation should refer to the corporation's annual report or contact the corporation directly.

A Note About Summary Information Tables

The **financial summary** provides five years of comparative financial information showing the corporation's financial position, its operational performance, and the funding received from and payments to Canada. Some of the summary information tables in this document may contain figures that appear to be calculated incorrectly. Readers are advised that, to ensure the greatest possible accuracy, all calculations are based on actual figures that are linked in a computer database. In the summary information tables, however, figures have been rounded. In some tables, the use of rounded rather than actual figures may give the appearance of discrepancy.

Where Crown corporations have re-stated financial data from previous years, readers should be aware that the tables in this report reflect only those changes that are intended to correct errors from previous years. These tables do not reflect amendments made as a result of changes in corporations' accounting policies that have been applied retroactively to financial statements from previous years.

A five-year **employment** history is also provided. In addition, selected **performance indicators** are provided where they have been included in numerical form in the annual report of the corporation concerned.

Glossary of Financial And Employment Terms Used in This Report

Financial Position

Total assets represents all assets reported by the corporation in its audited financial statements.

Loans from private sector includes short- and long-term borrowings, capital leases and any other debt-like instruments. For the marketing boards (Canadian Dairy Commission, The Canadian Wheat Board and Freshwater Fish Marketing Corporation), loans may include payments accruing to farmers, dairy producers and fishers.

Loans from Canada includes short- and long-term borrowings, advances from the Government of Canada for working capital or other purposes, and other debt-like instruments.

Shareholder's equity represents the equity of Canada. For some corporations, the excess of assets over liabilities is not deemed to be equity of Canada because of the nature of their operations (i.e., marketing boards).

Operations

Revenues includes revenues from all sources generated by the corporation. The amount includes income from commercial activities and interest income. It would also include

the gain on sale of assets and parliamentary appropriations where these are specifically included in revenues by the corporation.

Net income represents the after-tax income, where applicable, and any extraordinary items. It includes parliamentary appropriations where the corporation has included these in the computation of net income. In some cases, net income is the "excess of parliamentary appropriations over cost of operations" or "excess of proceeds over expenditures." A negative net income (i.e., a net loss) is shown in parentheses.

Funding From Canada

Budgetary refers to parliamentary appropriations for capital and operating purposes. The amounts exclude grants and contributions paid to Crown corporations where they qualify as members of a general class of recipients. Budgetary appropriations increase the expenditures of Canada and thus have a direct impact on the amount of the government's surplus or deficit.

Non-budgetary (loans and investments) represents loans and ownership interests (i.e., contributed capital or share capital) invested by the Government of Canada during the year. These loans and investments do not have an impact on the government's expenditures as they are recorded as assets of Canada. At the end of the government's fiscal year (March 31), a general provision for valuation is taken in the accounts of Canada on the entire stock of loans and investments to reflect estimated realizable value.

Payments to Canada

Loan repayments includes payments made during the year by the corporation to the Government of Canada on loans outstanding.

Dividends represents those declared by the corporation during the fiscal year of the corporation. This figure includes cash recoveries by Canada (where applicable), and other types of payments or contributions made to Canada. Dividends may be paid by the corporation to the Government of Canada before or after the corporation's year end.

Employment

Presents the number of full-time employees obtained from sources such as an annual report, financial statements or a corporate plan and are as at the fiscal year end of the Crown corporation. The employment figure includes the full-time staff, and employees outside of Canada of the parent corporation and its wholly owned subsidiaries. The exceptions are data for the Canada Development Investment Corporation, which relate to the parent corporation only; and data for the four pilotage authorities, which include contract pilots. Employment data for Canada Ports Corporation include divisional ports.

Atlantic Pilotage Authority

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson and Chief Executive Officer

Captain R. Anthony McGuinness

Head Office

Purdy's Wharf
Suite 1402, Tower 1
1959 Upper Water Street
Halifax NS
B3J 3N2
Telephone: (902) 426-2550
Facsimile: (902) 426-4004

Auditor

Auditor General of Canada

Incorporation and Status

1972 pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To operate, maintain and administer a safe and efficient pilotage service within designated waters in and around the Atlantic provinces.

Corporate Profile

In addition to providing pilotage services, the Atlantic Pilotage Authority with the approval of the Governor in Council makes regulations that prescribe the compulsory pilotage areas; the ships or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

Of the 31 ports in the four Atlantic regions, 17 are compulsory pilotage areas. The criteria for determining which ports should become compulsory are: the degree of difficulty and hazard in the approaches and within the port itself; the amount of vessel movement and the manoeuvrability of those vessels; the design of wharves and slips; the nature of the cargo; and environmental concerns and the preservation of the ecosystem.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	3.8	2.6	1.8	1.8	1.8
Loans from private sector	0.0	0.0	0.0	0.1	0.2
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	2.2	1.1	0.5	0.4	0.2
Operations					
Revenues	9.6	8.0	7.6	6.9	6.9
Net income	1.0	0.6	0.1	(0.7)	(0.8)
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.9	0.3
Change in budgetary funding	-	-100%	-95%	189%	-83%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	68	70	70	77	77
PERFORMANCE INDICATORS					
Pilotage assignments	9,760	8,576	8,668		
Incidents[1]	6	15	17		
% of incident-free assignments	99.9	99.9	99.8		

[1] Compilation of all maritime incident reports with or without damage.

Atomic Energy of Canada Limited

Appropriate Minister

The Honourable Ralph E. Goodale, P.C., M.P.
Minister of Natural Resources and Minister Responsible for The Canadian Wheat Board

Chairperson

Robert F. Nixon

Acting President and Chief Executive Officer

R. Allen Kilpatrick

Head Office

Minto Place
18th Floor
344 Slater Street
Ottawa ON
K1A 0S4
Telephone: (613) 237-3270
Facsimile: (613) 563-9499
Web Site: www.aecl.ca

Auditor

Auditor General of Canada
Ernst & Young

Incorporation and Status

1952 under Part I of the *Canada Corporations Act*; continued July 8, 1977, under a certificate, amended July 5, 1982, under the *Canada Business Corporations Act*; Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To undertake research into atomic energy and to prepare and develop its commercial applications. The corporation operates research and development laboratories at Chalk River, Ontario and Pinawa, Manitoba, as well as business, engineering and design offices in Ottawa, Toronto and Montreal.

Corporate Profile

Atomic Energy of Canada Limited's objective is to ensure maximum economic benefit for Canada from CANDU technology and the associated research and development projects. Its research and development programs are the springboard for a $6 billion-a-year nuclear industry with a substantial number of knowledge-based and high value-added jobs.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31[1]					
Financial Position					
Total assets	-	1,040.5	993.1	878.2	848.4
Loans from private sector	-	3.6	5.8	8.6	11.0
Loans from Canada	-	12.1	13.5	14.4	15.7
Shareholder's equity	-	458.1	464.2	474.1	466.9
Operations					
Revenues	-	629.5	581.4	649.0	632.2
Net income	-	15.4	(9.9)	7.2	(138.7)
Funding from Canada					
Budgetary (operating and capital expenditures)	-	197.5	174.6	180.0	173.5
Change in budgetary funding	-	13%	-3%	4%	-4%
Non budgetary (loans and investments)	-	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	-	1.4	0.9	1.4	430.3
Dividends	-	0.0	0.0	0.0	0.0
EMPLOYMENT	3,652	3,675	3,881	3,943	4,287

[1] Financial summary for 1997/98 is not available as the 1997/98 annual report had not been tabled in Parliament as of October 30, 1998.

BANK OF CANADA

Appropriate Minister

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Governor

Gordon G. Thiessen

Head Office

234 Wellington Street
Ottawa ON
K1A 0G9
Telephone: (613) 782-8111
Facsimile: (613) 782-8655
Web Site: www.bank-banque-canada.ca

Auditor

Caron Bélanger Ernst & Young
Coopers & Lybrand

Incorporation and Status

1934 by the *Bank of Canada Act* (R.S.C. 1985, c. B-2); acts as the fiscal agent of the Government of Canada; exempt from Divisions I to IV of Part X of the *Financial Administration Act.*

Mandate

To formulate and implement monetary policy in Canada; and to act as the government's fiscal agent. The Bank has the sole right to issue paper currency for circulation in Canada.

Corporate Profile

The Bank of Canada's primary functions are as follows:

- **Monetary policy**: The Bank is responsible for managing the rate of monetary expansion in a way that is consistent with preserving the value of money.
- **Central banking services**: The Bank carries out activities that support and oversee Canada's principal systems for clearing and settling payments and other financial transactions.
- **Currency**: The Bank issues bank notes in Canada. This involves note design as well as the printing and distribution of bank notes, and their eventual replacement.
- **Debt-management services**: The Bank advises the government on matters relating to the public debt and is responsible for issuing debt; maintaining bond holder records; and making payments on behalf of the government for interest and debt redemption.

On the international front, the Bank participates in regular meetings and conferences of major international organizations, where the emphasis is on sharing and gathering information to assist in domestic policy deliberations. In addition, the Bank works closely

with government departments on international economic and financial issues. Bank employees also take part in technical assistance programs to developing countries under the auspices of the International Monetary Fund and the World Bank and in co-operation with the Canadian International Development Agency.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	31,749.2	30,584.4	30,200.6	30,049.7	29,045.1
Liabilities:					
Deposits	882.5	1,318.9	1,164.5	1,286.0	1,602.0
Notes in circulation	30,542.0	29,109.9	28,777.7	28,328.7	27,236.7
Other	294.7	126.4	228.4	405.0	176.0
Shareholder's equity	30.0	30.0	30.0	30.0	30.0
Operations					
Revenues	1,578.6	1,648.8	2,037.0	1,704.9	1,757.6
Expenses	144.2	213.7	220.8	209.2	205.7
Net revenue - paid to Canada	1,434.4	1,435.1	1,816.2	1,495.7	1,551.9
EMPLOYMENT	1,500	1,600	1,968	2,066	2,083

Business Development Bank of Canada

Appropriate Minister
The Honourable John Manley, P.C., M.P.
Minister of Industry

Chairperson
Michel Vennat

President and Chief Executive Officer
François Beaudoin

Head Office
BDC Building
Suite 400
5 Place Ville-Marie
Montreal QC
H3B 5E7
Telephone: (514) 283-5904
Facsimile: (514) 283-7838
Web Site: www.bdc.ca

Auditor
KPMG
Auditor General of Canada

Incorporation and Status
1974 by the *Federal Business Development Bank Act* (R.S.C. 1985, c. F-6) and continued by the *Business Development Bank of Canada Act* (S.C. 1995, c. 28); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate
To promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and management services.

Corporate Profile

The Business Development Bank of Canada provides financial assistance to Canadian firms by acting as a complementary lender and a source for equity financing. It offers financial services, venture capital and consulting services.

The corporation supports businesses in many sectors with a particular emphasis on exporters, knowledge-based industries and high-growth companies. Small businesses in these target sectors often lack hard asset security to obtain complete financing from conventional sources.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	4,588.0	4,029.8	3,603.4	3,145.7	3,022.2
Loans from private sector	3,912.7	3,448.1	3,119.6	2,770.6	2,665.2
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	507.1	467.6	370.3	288.8	279.6
Operations					
Revenues	381.2	362.7	376.6	328.7	295.3
Net income	45.5	50.7	31.6	9.2	4.1
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	6.9	14.1	14.2	15.1
Change in budgetary funding	-100%	-51%	-1%	-6%	-1%
Non budgetary (loans and investments)	0.0	50.0	50.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	6.0	3.4	0.0	0.0	0.0
EMPLOYMENT	1,085	1,066	1,014	967	954
PERFORMANCE INDICATORS					
Productivity ratio[1] - Loans Division (%)	53.3	54.4	59.4	59.6	61.9
Cost recovery rate[2] - Consulting Group (%)	78.0	61.0	58.0	56.0	55.0
Return on average common shareholder's equity (%)	10.2	13.7	10.4	3.2	1.5

[1] Regular operating and administrative expenses to net interest income.

[2] Excluding long-term accruals and transformation costs.

Canada Council

Appropriate Minister

The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson

Jean-Louis Roux

Director and Chief Executive Officer

Shirley L. Thomson

Head Office

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Facsimile: (613) 566-4390
Web Site: www.canadacouncil.ca

Auditor

Auditor General of Canada

Incorporation and Status

1957 by the *Canada Council Act* (R.S.C. 1995, c. C-2); exempt from Divisions I to IV of Part X of the *Financial Administration Act;* not an agent of Her Majesty; a charitable organization for the purposes of the *Income Tax Act.*

Mandate

To promote the study, enjoyment and production of works in the arts.

Corporate Profile

The Canada Council provides grants and services to Canadian artists and arts organizations in dance, interdisciplinary work and performance art, media arts, music, theatre, visual arts, and writing and publishing. In addition to its primary role in the arts, the council administers the Art Bank, endowment funds, the Killam Program of prizes and fellowships to scholars of exceptional ability, and offers a number of awards.

The council is also responsible for the Canadian Commission for the United Nations Educational, Scientific and Cultural Organization (UNESCO), as well as for the Public Lending Right Commission.

The council seeks both individually and collectively the advice of artists and arts professionals regarding its activities. It also co-operates closely with federal and provincial cultural agencies and departments. Sources of funding for the council include parliamentary appropriations, income from its endowment funds, and private donations and bequests.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Assets - Endowment account [1]	272.9	200.3	168.2	158.8	155.9
- Special funds	0.0	66.2	55.5	52.6	51.0
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	179.1	232.1	186.4	174.4	171.7
Operations					
Revenues	129.3	112.4	121.2	114.9	113.3
Outlays on grants, services and art	103.9	88.4	88.8	91.7	92.2
Net income	10.2	45.7	12.0	2.1	(1.3)
Funding from Canada					
Budgetary (operating and capital expenditures)	114.0	91.1	95.9	98.4	99.3
Change in budgetary funding	25%	-5%	-3%	-1%	-8%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	133	132	161	217	230

[1] The Canadian Institute of Chartered Accountants amended the reporting recommendations for not-for-profit organizations. Beginning in 1997/98, the Canada Council changed its financial statement presentation from a separate disclosure of its Endowment account and Special funds to a combined basis.

Canada Deposit Insurance Corporation

Appropriate Minister

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Chairperson

Grant L. Reuber

President and Chief Executive Officer

Jean Pierre Sabourin

Head Office

17th Floor
50 O'Connor Street
PO Box 2340, Station D
Ottawa ON
K1P 5W5
Telephone: (613) 996-2081
Facsimile: (613) 996-6095
Web Site: www.cdic.ca

Auditor

Auditor General of Canada

Incorporation and Status

1967 by the *Canada Deposit Insurance Corporation Act* (R.S.C. 1985, c. C-3; R.S.C. 1985, c. 18 (2nd Supp.); S.C. 1992, c. 26); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To provide limited insurance for deposits with member institutions, i.e., federal banks, trust and loan companies, and approved provincial trust and loan companies; to promote standards of sound business and financial practices; and to promote and contribute to the stability of the Canadian financial system.

Corporate Profile

The primary functions of the Canada Deposit Insurance Corporation involve insurance and risk management, and claims and recoveries.

Risk management encompasses policy deployment, liaison with member organizations and regulators, risk assessment, return of insured deposits, by-laws and member interventions.

Claims and recoveries are accomplished through assisting with interventions, asset management, claims and payout management, depositor correspondence and communication, litigation, and the supervision of agents and liquidators.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	883.1	847.4	1,208.9	1,117.2	2,387.6
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	401.9	865.0	1,640.1	2,174.4	3,177.1
Shareholder's equity	(538.9)	(1,176.2)	(1,301.0)	(1,747.1)	(1,647.7)
Operations					
Revenues	552.5	560.9	552.6	531.7	409.3
Net income	637.3	124.8	446.2	(99.5)	3.0
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	100.0	250.0	350.0	1,230.0
Payments to Canada					
Loan repayments	460.0	872.0	783.0	1,341.0	1,729.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	80	88	86	87	90

Canada Development Investment Corporation

Appropriate Minister

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Chairperson

Donald McQ. Shaver

Head Office

PO Box 71058
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K2P 2L9
Telephone: (613) 943-9391
Facsimile: (613) 943-9390

Auditor

KPMG
Auditor General of Canada

Incorporation and Status

1982 under the *Canada Business Corporations Act*. Letters patent, May 26, 1982; Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To manage Crown corporations and investments assigned to it, and to privatize its holdings when appropriate. In January 1995, the government completed an assessment of the corporation's future role. As a result, the corporation's current mandate is to wind down its operations by divesting its assets and reducing its operating costs.

Corporate Profile

The Canada Development Investment Corporation (CDIC) manages two wholly owned subsidiaries: Canada Eldor Inc. and Canada Hibernia Holding Corporation. The latter manages the federal government's 8.5-per-cent interest in the Hibernia Oil and Gas Offshore Development Project.

A previously wholly owned subsidiary, Theratronics International Limited, was sold in May 1998 to MDS Inc.

CDIC also administers outstanding issues pursuant to prior divestitures, including the sale of the operating assets of Eldorado Nuclear Ltd. (now Canada Eldor Inc.), Canadair Limited and Nordion International Inc. These issues include certain waste contingencies and outstanding litigation.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	119.7	124.0	140.3	126.4	181.9
Loans from private sector	0.0	0.0	0.0	0.0	461.7
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	92.0	98.9	114.0	98.3	(318.2)
Operations					
Revenues	1.0	4.7	5.6	6.2	14.4
Net income	(2.0)	16.2	25.7	(21.8)	(32.7)
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	5.0	31.3	10.0	10.0	7.7
EMPLOYMENT	0	3	3	8	9

CANADA LANDS COMPANY LIMITED

Appropriate Minister

The Honourable Alfonso Gagliano, P.C., M.P.
Minister of Public Works and Government Services

Chairperson

Jon K. Grant

President and Chief Executive Officer

Erhard Buchholz

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Web Site: www.clc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1956 by letters patent; reorganized under the *Canada Business Corporations Act*, September 19, 1977; Certificate of Continuance under the *Canada Business Corporations Act,* July 7, 1981; Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To dispose of surplus federal real properties in order to optimize value to Canadian taxpayers while respecting the government's policies with regard to First Nations' land claims, as well as environmental, official languages and heritage considerations.

Corporate Profile

In addition to its principal function of disposing of surplus federal real properties, Canada Lands Company Limited is responsible for managing certain key properties, including the former Canadian Forces Base Downsview lands in Toronto. Originally, the corporation focused on the marketing of the surplus property of the Canadian National Railway Company, which was privatized in 1995. Since then Canada Lands Company Limited has assumed responsibility for other federal properties across the country.

The corporation's real estate portfolio includes the CN Tower in Toronto, which is currently undergoing a major revitalization program through a public/private partnership.

Other major projects include the development of the Glenlyon Business Park in Burnaby, British Columbia; the planning and rezoning of Currie Barracks/Lincoln Park in Calgary; the completion of the redevelopment of Saint-Hubert Garrison in Saint-Hubert, Quebec; and the environmental remediation and subsequent development of the former railway shops in Moncton, New Brunswick.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	418.2	403.8	394.9	0.0	0.0
Loans from private sector	36.9	42.4	63.5	0.0	0.0
Loans from Canada	55.8	37.1	0.9	0.0	0.0
Shareholder's equity	242.5	249.6	250.1	0.0	0.0
Operations					
Revenues	187.4	226.8	78.8	0.0	0.0
Net income	13.3	10.4	0.5	0.0	0.0
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	18.7	37.1	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.9	0.0	0.0	0.0
Dividends	20.4	10.9	0.0	0.0	0.0
EMPLOYMENT	80	325	340	0	0

CANADA MORTGAGE AND HOUSING CORPORATION

Appropriate Minister

The Honourable Alphonso Gagliano, P.C., M.P.
Minister of Public Works and Government Services

Chairperson

Peter R. Smith

President and Chief Executive Officer

Marc W. Rochon

Head Office

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Ottawa ON
K1A 0P7
Telephone: (613) 748-2000
Facsimile: (613) 748-2067
Web Site: www.cmhc-schl.gc.ca

Auditor

Mallette Maheu (Associated with Arthur Andersen)
Auditor General of Canada

Incorporation and Status

1946 by the *Central Mortgage and Housing Corporation Act*; amended March 16, 1979, to *Canada Mortgage and Housing Corporation Act* (R.S.C. 1985, c. C-7); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty except when s.14 of its Act applies.

Mandate

To promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions.

In 1996, the Government of Canada assigned to the Canada Mortgage and Housing Corporation a new mandate in the areas of housing finance, assisted housing, housing export promotion, and research and information transfer.

Corporate Profile

The Canada Mortgage and Housing Corporation (CMHC) accomplishes its mandate through activities in three business components:

Within the **Corporate Account**, the corporation manages a portfolio of loans and investments under the provisions of the *National Housing Act*, develops and sells land holdings, and provides housing-related services. Funding is provided by borrowings from the private sector and in the past was provided by the Government of Canada.

The **Minister's Account** administers subsidized housing programs under the provisions of the *National Housing Act*. CMHC is reimbursed for contributions and related operating expenses through parliamentary appropriations of almost $1.9 billion per year.

About 90 per cent of the contributions are committed for some 35 years to subsidize social housing programs.

The **Insurance and Guarantee Funds** are administered by the corporation under the provisions of the *National Housing Act*. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgage loans. The Mortgage-backed Securities Guarantee Fund guarantees timely payment of the principal and interest for investors of securities based on insured mortgages.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Corporate Account					
Financial Position					
Total assets	16,566.0	15,098.0	13,849.4	11,768.9	10,013.6
Loans from private sector	9,304.0	7,605.4	5,999.8	3,444.7	1,345.2
Loans from Canada	6,848.0	7,118.5	7,512.7	7,972.2	8,306.1
Shareholder's equity	40.0	28.6	35.1	43.7	50.0
Operations					
Revenues	1,238.0	1,146.3	1,035.6	877.5	800.2
Net income	11.0	(6.6)	(8.6)	(6.3)	5.6
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	263.4
Payments to Canada					
Loan repayments	257.0	409.9	447.4	334.2	453.6
Dividends	0.0	0.0	0.0	0.0	5.6
Minister's Account					
Operations					
Expenditures	1,900.0	1,944.6	2,001.9	1,868.0	1,935.0
Budgetary appropriations	1,991.0	1,968.1	1,952.5	1,879.6	1,899.6
Change in budgetary funding	1%	1%	4%	-1%	0%
Due from the Minister	187.0	278.1	301.6	252.3	264.0
Insurance and Guarantee Funds					
Financial Position					
Total assets	3,979.0	2,548.2	2,317.8	2,093.1	1,844.2
Shareholder's equity	37.0	47.6	44.0	(48.8)	38.4
Operations					
Revenues	665.0	557.0	544.9	432.0	436.5
Net income	(11.0)	16.6	92.8	(87.2)	(56.9)
EMPLOYMENT	2,366	2,565	2,824	3,032	2,975

CANADA PENSION PLAN INVESTMENT BOARD

Appropriate Minister
The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Chairperson
Gail Cook-Bennett

President and Chief Executive Officer
(Vacant)

Head Office
n/a

Auditor
n/a

Incorporation and Status
1998 by the *Canada Pension Plan Investment Board Act* (S.C. 1997, c. 40); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate
To manage prudently and professionally in the best interests of contributors and beneficiaries, with a view to achieving a maximum rate of return without undue risk of loss, funds transferred to the board from the Canada Pension Plan Account.

Corporate Profile

Legislation to create the Canada Pension Plan Investment Board (CPPIB) was passed by Parliament in December 1997 and came into effect on April 1, 1998. The CPPIB will be responsible for prudently investing Canada Pension Plan funds transferred to it in a diversified portfolio of securities in the best interests of plan members. The CPPIB will operate at arm's length from government under an independent board of directors, appointed by the Governor in Council on the recommendation of the Minister of Finance, in consultation with his counterparts from participating provinces. The board will hire professional asset managers to make day-to-day investment decisions at arm's length from governments.

The CPPIB will be accountable to the public and governments, and will report its investment results regularly. For example, the board will make its investment and other policies public; release quarterly financial statements; publish an annual report for tabling in Parliament; and hold public meetings in each participating province at least every two years.

It has been estimated that assets under the board's management could total between $60 billion and $80 billion by 2007. Funds are expected to begin flowing to the CPPIB early in 1999.

CPPIB's financial data are not available since its operations had not commenced as of July 31, 1998.

CANADA PORTS CORPORATION

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Carole Taylor

President and Chief Executive Officer

James Andrew Lynes

Head Office

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Telephone: (613) 957-6700
Facsimile: (613) 996-9629

Auditor

Raymond, Chabot, Martin, Paré

Incorporation and Status

1983 by the *National Harbours Board Act* (R.S.C. 1970, N-8, s.3); reconstituted by the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act;* an agent of Her Majesty.

Mandate

To administer, manage and control Canadian harbours and any other harbour, work or property of Canada transferred by the Governor in Council.

Corporate Profile

Canada Ports Corporation co-ordinates the national port activities of seven autonomous local port corporations, which appear separately in this report. It has direct responsibility for operating six non-corporate divisional ports and has a wholly owned subsidiary, Ridley Terminals Inc., which is a bulk handling terminal at Prince Rupert. In addition, the corporation administers the Interport Loan Fund to provide an alternative source of financing for financially viable projects.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, Canada Ports Corporation will be dissolved. Its assets will devolve to the Crown under the administration of the Minister of Transport. Ridley Terminals Inc. will become a parent Crown corporation subject to Part X of the *Financial Administration Act.*

The *Canada Marine Act* also provides that the local port corporations will become Canada Port Authorities. These entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors, and port users recommending the majority.

In September 1997, Canada Ports Corporation ceased to operate the Port of Churchill. The Hudson Bay Port Company took possession of the major facilities and a waterlot at the port. The remaining property and subsisting obligations including administration, management and control of the harbour, were passed to Transport Canada.

PORTS CANADA SYSTEM

Divisional Ports:
Port of Belledune
Port Colborne
Port of Prescott
Port Saguenay/Baie des Ha! Ha!
Port of Sept-Îles
Port of Trois Rivières

Subsidiary:
Ridley Terminals Inc.

Local Port Corportions:
Halifax Port Corporation
Montreal Port Corporation
Port of Quebec Corporation
Prince Rupert Port Corporation
Saint John Port Corporation
St. John's Port Corporation
Vancouver Port Corporation

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	287.9	271.6	264.7	249.6	247.0
Loans from private sector	168.1	171.4	179.4	185.5	196.0
Loans from Canada	0.3	0.4	0.4	0.5	0.5
Shareholder's equity	21.6	12.1	3.2	(9.0)	(16.1)
Operations					
Revenues	62.8	64.0	62.6	64.3	58.0
Net income	8.8	13.2	9.8	5.3	10.5
Funding from Canada					
Budgetary (operating and capital expenditures)	(0.5)	1.0	0.0	0.0	0.0
Change in budgetary funding	-150%	-	-	-	-100%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.1	0.1	0.1	0.1	0.1
Dividends	0.4	0.3	0.2	0.2	0.1
EMPLOYMENT	197	253	253	280	281
PERFORMANCE INDICATORS					
Total port cargo (million tonnes)	193	185	185	185	166
Operating revenue/tonne ($)	1.2	1.2	1.2	1.2	1.2
Debt : equity ratio	44.6	47.5	47.5	43.6	44.6

CANADA POST CORPORATION

Appropriate Minister

The Honourable Alfonso Gagliano, P.C., M.P.
Minister of Public Works and Government Services

Chairperson

The Honourable André Ouellet, P.C.

President and Chief Executive Officer

Georges C. Clermont

Head Office

Canada Post Place
2701 Riverside Drive
Ottawa ON
K1A 0B1
Telephone: (613) 734-8440
Facsimile: (613) 734-6022
Web Site: www.canadapost.ca
www.postecanada.ca

Auditor

Deloitte & Touche

Incorporation and Status

1981 by the *Canada Post Corporation Act* (R.S.C. 1985, c. C-10); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To operate Canada's postal service on a self-sustaining basis with a standard of service that meets the needs of Canadians. The corporation also has a 75-per-cent interest in PCL Courier Holdings Inc., which owns all of the shares of Purolator Courier.

The federal government compensates Canada Post for postal services that are provided at less than cost pursuant to government measures to support the publishing industry and other programs, such as northern parcel mail, parliamentary free mail and blind persons' free mail.

Corporate Profile

In 1997/98, Canada Post Corporation delivered 9.1 billion messages and parcels to 12.7 million Canadian addresses. These materials were processed through a network of 22 major plants and other facilities. Postal services are available to customers through nearly 20,000 retail points of access.

The corporation provides a number of distribution services including Priority Courier, Xpresspost, Expedited and Regular Parcels. It also sells philatelic products. Through its international consulting subsidiary, Canada Post Systems Management Ltd., the corporation markets its expertise to postal administrations throughout the world.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	2,919.0	2,725.8	2,515.4	2,564.6	2,612.8
Loans from private sector	171.0	175.6	199.0	199.0	199.0
Loans from Canada	80.0	80.0	80.0	80.0	80.0
Shareholder's equity	1,155.0	1,128.7	1,026.2	998.0	1,066.9
Operations					
Revenues	5,088.0	5,103.1	4,953.5	4,748.0	4,115.6
Net income	36.0	112.5	28.2	(68.9)	(270.4)
Funding from Canada					
Budgetary (operating and capital expenditures)	14.0	14.0	14.0	14.0	14.0
Change in budgetary funding	0%	0%	0%	0%	0%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	10.0	10.0	0.0	0.0	0.0
EMPLOYMENT	43,064	43,831	44,107	43,871	43,699
PERFORMANCE INDICATORS					
Service performance					
Same major urban centre (%)	96.0	96.0	97.0	97.0	98.0
Same province (%)	96.0	97.0	97.0	97.0	98.0
Different provinces (%)	96.0	96.0	97.0	97.0	98.0
Customer satisfaction index (%)	65.0	60.0	60.0	57.0	n/a
Employee satisfaction index (%)	53.0	53.0	52.0	54.0	n/a
Profitability					
Return on equity (%)	3.2	10.4	2.8	(6.7)	(22.5)
Return on capital (%)	2.6	8.3	2.2	(5.3)	(19.2)
Operating profit margin (%)	1.0	2.6	1.3	(0.8)	0.6
Dividend payout ratio (%)	n/a[1]	8.9	35.7	0.0	0.0
Total volume (in millions of pieces)	9,236	10,855	11,763	11,573	10,910 [2]
Per-cent (decrease) increase	(14.9)	(7.7)	1.6	6.1	4.8
Retail points of access	19,865	21,003	18,547	18,567	18,738
Per-cent (decrease) increase	(5.4)	13.2	(0.1)	(0.9)	0.5
Points of delivery (in thousands)	12,747	12,595	12,468	12,344	12,162
Per-cent increase	1.2	1.0	1.0	1.5	1.9
Pick-up points (in thousands)	909	908	900	884	870
Per-cent increase	0.1	0.9	1.8	1.6	1.6

[1] Dividends for 1997/98 may be declared and paid in 1998/99.

[2] Figures for 1993/94 include the results of PCL Courier Holdings Inc. from November 26, 1993, the effective date on which the corporation acquired a controlling interest.

CANADIAN BROADCASTING CORPORATION

Appropriate Minister

The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson

Guylaine Saucier

President and Chief Executive Officer

The Honourable Perrin Beatty, P.C.

Head Office

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Ottawa ON
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Telephone: (613) 724-5721
Web Site: cbc.radio-canada.ca

Auditor

Auditor General of Canada

Incorporation and Status

Established by the 1936 *Canadian Broadcasting Act* and continued by the 1958, 1968 and 1991 Broadcasting Acts (R.S.C. 1991, c. 11); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

As Canada's national public broadcaster, the corporation's mission is to inform, entertain and enlighten; to contribute to the development of shared national consciousness and identity; to reflect the regional and cultural diversity of Canada; and to contribute to the development of Canadian talent and culture.

Corporate Profile

The Canadian Broadcasting Corporation (CBC) produces, procures and distributes Canadian programming in English, French and a number of Aboriginal languages. It also offers a selection of programs from around the world. Its services include:

- two main television networks, one English and one French, that offer general and special interest programs;
- four main radio networks, two English and two French, that offer information and general interest programs as well as classical music, jazz and cultural programs;
- two all-news and information television networks that are entirely financed by cable subscriptions and advertising revenue. The English network is called CBC Newsworld, and the French one is called Le Réseau de l'information (RDI);
- radio and television services to the North in English, French and eight Aboriginal languages; and

- a digital pay audio service offering 30 continuous music channels 24 hours per day without talk or commercials.

On behalf of the Government of Canada, the CBC also provides an international shortwave radio service, Radio Canada International, which broadcasts programs in seven languages.

CBC's programs are distributed via satellite in combination with microwave and landline, feeding 93 CBC owned stations, 1,165 CBC rebroadcasters, 28 private affiliated stations and 291 affiliated or community-owned rebroadcasters and stations.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	1,513.1	1,664.7	1,696.7	1,613.0	1,582.0
Loans from private sector	389.2	405.1	411.9	433.6	435.3
Loans from Canada	0.0	0.0	0.0	0.0	33.0
Shareholder's equity[1]	(65.4)	758.0	680.2	738.6	756.8
Operations					
Revenues[2]	1,378.8	1,138.0	1,258.4	1,362.6	1,329.1
Net income	(35.5)	(23.0)	(159.8)	(193.7)	(152.4)
Funding from Canada					
Budgetary (operating and capital expenditures)	806.5	997.1	1,170.7	1,126.9	1,089.5
Change in budgetary funding	-19%	-15%	4%	3%	-2%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	33.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	6,728	7,311	8,181	9,015	9,117
PERFORMANCE INDICATORS					
Canadian content, CBC English Television (%)					
Full day	74.0	65.0			
Prime time (7 to 11 p.m.)	91.0	88.0			
Audience share, prime time (%)					
CBC English Television	10.8	11.3			
Radio-Canada, among francophones	25.8	26.1			

[1] In order to conform to the Canadian Institute of Chartered Accountants Public Sector Accounting and Auditing Board Exposure Draft on Accounting for Government Assistance, capital funding received from the Government of Canada is now deferred and amortized on the same basis and over the same periods as the related assets. This has resulted, temporarily, in a negative balance for shareholder's equity.

[2] Revenues for 1997/98 are now disclosed on a gross basis to more fully reflect the extent of the corporation's activities, whereas certain expenses were netted against related revenues in the past.

Canadian Commercial Corporation

Appropriate Minister

The Honourable Sergio Marchi, P.C., M.P.
Minister for International Trade

Chairperson and President

Robert G. Wright

Head Office

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Telephone: (613) 996-0034
Facsimile: (613) 992-2121
Web Site: www.ccc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1946 by the *Canadian Commercial Corporation Act* (R.S.C. 1985, c. C-14); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To assist in the development of trade between Canada and other nations by facilitating sales to foreign governments and international agencies as well as other approved buyers on behalf of Canadian suppliers.

Corporate Profile

The Canadian Commercial Corporation (CCC) helps Canadian exporters to win contracts in foreign markets, primarily with those of foreign governments and international organizations. Foreign buyers dealing through CCC receive a government-backed guarantee of contract completion.

As part of Canada's trade team, the corporation's activities complement the export financing and insuring services of the Export Development Corporation, as well as the market intelligence and promotional activities of federal departments and agencies.

As the export contracting arm of the federal government, CCC:

- gains access for Canadian exporters to the U.S. defence and space markets through formal agreements signed by the Government of Canada;
- acts as a prime contractor in the sale of Canadian goods and services at the request of Canadian exporters and their foreign customers;

- identifies business opportunities, particularly with the U.S. government, and passes them on to Canadian firms that are registered with CCC and capable of meeting the client's requirements; and
- provides assistance and expertise in other areas such as pre-shipment financing, contract risk analysis, management services and contract arbitration.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	307.1	250.5	312.8	384.3	390.6
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	17.5	17.3	16.6	18.3	17.0
Operations					
Revenues	956.8	907.5	974.6	879.2	882.1
Net income	0.3	0.6	(1.7)	1.3	1.2
Funding from Canada					
Budgetary (operating and capital expenditures)	10.7	10.9	11.8	13.2	13.8
Change in budgetary funding	-2%	-7%	-10%	-4%	2%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	85	90	84	81	81
PERFORMANCE INDICATOR					
Number of suppliers doing business with CCC	1,759	1,310	1,050		

Canadian Dairy Commission

Appropriate Minister

The Honourable Lyle Vanclief, P.C., M.P.
Minister of Agriculture and Agri-Food

Chairperson and Chief Executive Officer

Guy Jacob

Head Office

Carling Executive Park
Suite 300
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Telephone: (613) 792-2000
Facsimile: (613) 998-4492
Web Site: www.cdc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1966 by the *Canadian Dairy Commission Act* (R.S.C. 1985, c. C-15) (S.C. 1994, c. 26 and c. 38) (S.C. 1995, c. 23); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To give milk and cream producers the opportunity to get a fair return for their labour and investment while giving consumers a continuous and adequate supply of high quality dairy products.

Corporate Profile

The Canadian Dairy Commission has the authority to purchase, store, process or sell dairy products; to make payments to milk and cream producers for the purpose of stabilizing the price of industrial milk and cream; to investigate matters relating to the production, processing or marketing of any dairy product; and to help promote the use of dairy products.

The commission advises the Minister of Agriculture and Agri-Food on matters relating to dairy policy and determines domestic requirements for industrial milk and cream for purposes of establishing Market Sharing Quota. It also establishes the target price for industrial milk, sets support prices for butter and skim milk powder, and offers to purchase products at these prices.

Since August 1, 1995, the commission has administered a new special milk class pricing and pooling system on behalf of the dairy industry. This has eliminated the need for the commission to make assistance payments to processors and exporters of dairy products.

Through its research and advisory functions, as well as its facilitative efforts on behalf of the Canadian Milk Supply Management Committee, the commission helps to build the

consensus among industry players and governments that underlies the orderly marketing of dairy products in Canada.

Summary Information

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending July 31					
Financial Position					
Total assets	178.0	158.6	189.3	176.4	171.0
Loans from private sector	24.3	37.0	68.7	57.2	75.2
Loans from Canada	103.4	75.3	69.3	68.1	58.4
Shareholder's equity	0.0	0.0	0.0	0.0	0.0
Operations					
Revenues	292.1	303.1	214.8	186.0	163.9
Net income	(3.1)	12.4	33.3	13.5	29.1
Funding from Canada					
Budgetary (operating and capital expenditures)	153.2	187.6	224.7	226.1	242.6
Change in budgetary funding	-18%	-16%	-1%	-7%	0%
Non budgetary (loans and investments)	234.1	307.4	274.0	226.2	167.3
Payments to Canada					
Loan repayments	206.0	301.5	272.8	216.5	259.7
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	62	62	57	57	58

Canadian Film Development Corporation

Appropriate Minister

The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson

Laurier LaPierre

Acting Executive Director

Peter Katadotis

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Facsimile: (514) 283-8212
Web Site: www.telefilm.gc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1967 by the *Canadian Film Development Corporation Act* (R.S.C. 1985, c. C-16); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To foster and promote an independent film and television production industry in Canada.

Corporate Profile

The Canadian Film Development Corporation (Telefilm) provides financial assistance for the development, production and distribution of Canadian motion pictures, television programs and multimedia products. During the period in review, it accomplished this through the following funds and programs:

- Equity Investment Program of the Canadian Television Fund;
- Feature Film Fund;
- Commercial Production Fund;
- Production Revenue Sharing Program;
- Multimedia Investment Fund;
- Feature Film Distribution Fund;
- Distribution Commercial Fund;
- Distribution Revenue Sharing Program;

- Canadian Production Marketing Assistance Fund (national and international components);
- Versioning Assistance Fund;
- Canadian Film and Video Festivals Grants Fund;
- Canadian Participation in International Film Events;
- Loan Guarantee Program;
- Industrial and Professional Development Fund; and
- 44 co-production treaties with 52 countries.

The Equity Investment Program of the Canadian Television Fund, for which the Canadian Film Development Corporation administers the Equity Investment Program, is the principal tool for providing leverage for the Canadian television industry. The corporation's commitments through this program and the Feature Film Fund represent 90 per cent of its total production and development activities.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	51.3	52.3	47.8	49.0	39.2
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	38.7	31.1	35.6	38.8	28.4
Operations					
Revenues	1.0	0.6	0.7	0.6	0.9
Net income	(150.4)	(136.4)	(112.1)	(112.0)	(118.3)
Funding from Canada					
Budgetary (operating and capital expenditures)	81.1	92.4	109.0	122.3	132.4
Change in budgetary funding	-12%	-15%	-11%	-8%	-8%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	8.5
EMPLOYMENT	140	130	148	166	178

Canadian Museum of Civilization Corporation

Appropriate Minister
The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson
Adrienne Clarkson

President and Chief Executive Officer
George F. MacDonald

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Telephone: (819) 776-7116
Facsimile: (819) 776-7122
Web Site: www.civilization.ca

Auditor
Auditor General of Canada

Incorporation and Status
1990 by the *Museums Act* (S.C. 1990, c.3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate
To increase interest in, knowledge of, and appreciation for human cultural achievements and behaviour throughout Canada and internationally. This involves establishing, for research and posterity, a collection of objects of historical or cultural interest with special but not exclusive reference to Canada.

Corporate Profile

The Canadian Museum of Civilization Corporation comprises the Canadian Museum of Civilization – Canada's national repository of social and cultural history – and its affiliate museums. The affiliates are the Canadian War Museum – a national museum of military history – and the Museum of New France which is an entirely virtual museum. In addition to producing on-site and travelling exhibits, the corporation carries on extensive book and electronic media publishing activities. Other products include IMAX® films, lectures and special events.

Through its Canadian Children's Museum programming, the corporation offers educational exhibits and other activities. The new Canadian Postal Museum opened in June 1997. Its exhibits are situated within the Canadian Museum of Civilization complex.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	31.6	31.3	30.6	30.5	25.2
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	20.6	16.4	17.6	15.6	13.7
Operations					
Revenues	8.8	8.7	9.3	7.9	7.1
Net income	(45.3)	(45.4)	(44.2)	(48.2)	(40.3)
Funding from Canada					
Budgetary (operating and capital expenditures)	46.7	44.2	46.2	50.1	39.6
Change in budgetary funding	6%	-4%	-8%	27%	1%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	490	510	534	466	525

Canadian Museum of Nature

Appropriate Minister

The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson

Frank Ling

President and Chief Executive Officer

Joanne DiCosimo

Head Office

Victoria Memorial Museum Building
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Telephone: (613) 566-4700
Facsimile: (613) 364-4020
Web Site: www.nature.ca

Auditor

Auditor General of Canada

Incorporation and Status

1990 by the *Museums Act* (S.C. 1990, c. 3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To increase interest in, knowledge of, and appreciation and respect for the natural world throughout Canada and internationally. This involves establishing, for research and posterity, a collection of natural history objects with special but not exclusive reference to Canada.

Corporate Profile

The Canadian Museum of Nature conducts research and publishes scientific articles. The corporation also acquires and maintains collections of a wide variety of animals and minerals.

The Museum educates the public through programs that are targeted at families with young children. These educational products include a variety of interactive and multimedia exhibits, lectures, broadcasts and a Web site.

In 1997/98, the corporation's new facility, the Natural Heritage Building in Aylmer, Quebec, was inaugurated. Activities and collections from 12 different sites have been consolidated in the new site.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	44.4	55.9	20.5	19.2	7.9
Loans from private sector	34.0	37.4	0.0	0.0	0.0
Loans from Canada	1.7	0.0	0.0	0.0	0.0
Shareholder's equity	4.1	6.1	5.6	4.2	2.3
Operations					
Revenues	1.9	4.4	2.5	1.9	1.5
Net income	(25.0)	(27.8)	(25.1)	(23.3)	(18.3)
Funding from Canada					
Budgetary (operating and capital expenditures)	22.9	27.1	27.0	27.4	19.8
Change in budgetary funding	-15%	0%	-2%	39%	4%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	150	193	240	241	216

Canadian Race Relations Foundation

Appropriate Minister
The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson
The Honourable Lincoln Alexander, P.C.

Executive Director
Moy Tam

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Web site: www.crr.ca

Auditor
Hilborn Ellis Grant

Incorporation and Status
1990 under the *Canadian Race Relations Foundation Act*; exempt from Part X of the *Financial Administration Act*; not an agent of Her Majesty; a charitable organization for the purposes of the *Income Tax Act*.

Mandate
To facilitate, throughout Canada, the development, sharing and application of knowledge and expertise to contribute to the elimination of racism and all other forms of racial discrimination in Canadian society.

Corporate Profile

The Canadian Race Relations Foundation pursues activities in the three following areas:

Public education: The foundation's efforts are aimed at combating racism and reinforcing the positive contributions of racial minorities in Canadian society.

Action-oriented research: The foundation awards contracts for research on issues such as systemic racism in education, systemic racism in employment, public attitudes, race relations training and the development of standards.

Information, resource development and networking: This involves sharing of information and development of resources through conferences and workshops, annotated bibliographies, resource guides and the foundation's Web site.

When the foundation was created in October 1996 upon proclamation of its Act, it received a one-time endowment of $24 million from the federal government. The foundation operates on income derived from investments, donations and fundraising efforts. The Department of Canadian Heritage provided start-up funds for fiscal years 1996/97 and 1997/98.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	26.5	25.8	n/a	n/a	n/a
Loans from private sector	0.0	0.0	n/a	n/a	n/a
Loans from Canada	0.0	0.0	n/a	n/a	n/a
Shareholder's equity	25.9	24.4	n/a	n/a	n/a
Operations					
Revenues	2.3	0.5	n/a	n/a	n/a
Net income	1.5	0.4	n/a	n/a	n/a
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	24.0	n/a	n/a	n/a
Change in budgetary funding	-100%	n/a	n/a	n/a	n/a
Non budgetary (loans and investments)	0.0	0.0	n/a	n/a	n/a
Payments to Canada					
Loan repayments	0.0	0.0	n/a	n/a	n/a
Dividends	0.0	0.0	n/a	n/a	n/a
EMPLOYMENT	5	0	n/a	n/a	n/a

CANADIAN WHEAT BOARD, THE

Appropriate Auditor Minister

The Honourable Ralph Goodale, P.C., M.P.
Minister of Natural Resources and Minister Responsible for The Canadian Wheat Board

Chief Commissioner

Lorne F. Hehn

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PO Box 816
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Telephone: (204) 983-0239
Facsimile: (204) 983-3841
Web site: www.cwb.ca

Auditor

Deloitte & Touche

Incorporation and Status

1935 by the *Canadian Wheat Board Act* (R.S.C. 1985, c. C-24); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To market wheat and barley grown in Western Canada in the best interests of Western Canada's grain producers; and to administer the *Prairie Grain Advance Payments Act.*

Corporate Profile

The Canadian Wheat Board (CWB) markets wheat and barley on behalf of 110,000 producers in Western Canada. It is responsible for all domestic sales for human consumption and export sales of wheat and barley grown in the Prairie provinces and British Columbia. It markets these grains in Canada as well as to more than 70 countries around the world with the objective of attaining the best possible price. By acting as a seller, banker and shipper, the CWB is actively involved in all facets of the grain industry.

The corporation's sales revenues belong to the producers. Therefore, all proceeds from sales, less marketing and administrative costs, are returned to the producers.

The amendments to the *Canadian Wheat Board Act,* which received Royal Assent on June 11, 1998, will change the CWB from a parent Crown corporation to a shared-governance corporation with farmers electing a majority of the board of directors.

On August 25, 1998, the CWB announced that KPMG had been hired as election co-ordinator for the upcoming election of the 10 farmer members to the CWB board.

Summary Information

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending July 31					
Financial Position					
Total assets	8,424.9	8,281.2	8,043.3	8,858.6	8,651.1
Loans from private sector	7,605.1	7,619.0	7,144.0	7,777.4	7,645.7
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	0.0	0.0	0.0	0.0	0.0
Operations					
Revenues	6,195.4	5,910.0	4,525.5	3,873.4	4,428.1
Net income[1]	0.0	0.0	0.0	0.0	0.0
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-100%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	495	454	452	464	453

[1] The CWB's policy is to record net income as zero to reflect the fact that all proceeds from sales, less marketing costs, are passed back to farmers.

CAPE BRETON DEVELOPMENT CORPORATION

Appropriate Minister

The Honourable Ralph Goodale, P.C., M.P.
Minister of Natural Resources and Minister
Responsible for The Canadian Wheat Board

Chairperson

Joseph Shannon

President and Chief Executive Officer

George White

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Auditor

Auditor General of Canada

Incorporation and Status

1967 by the *Cape Breton Development Corporation Act*, (R.S.C. 1985, c. C-25); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To reorganize and rehabilitate the coal industry on Cape Breton Island. The goal of the corporation is to operate safe and commercially viable coal mines that are dependable supplies of quality coal and related energy products.

Corporate Profile

The Cape Breton Development Corporation is the largest coal producer in Eastern Canada. It operates the Prince Colliery and the Phalen Colliery on Cape Breton Island, as well as fully integrated support facilities for the preparation and distribution of coal to Canadian and international markets.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	219.4	252.6	259.5	367.0	379.9
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	65.6	43.5	15.0	5.0	5.0
Shareholder's equity	(152.4)	78.4	65.0	272.4	267.7
Operations					
Revenues	167.9	167.3	188.4	235.4	231.8
Net income	(187.2)	(30.1)	(207.4)	(20.7)	(19.3)
Funding from Canada					
Budgetary (operating and capital expenditures)	22.1	43.5	0.0	25.4	38.5
Change in budgetary funding	-49%	-	-100%	-34%	24%
Non budgetary (loans and investments)	0.0	0.0	10.0	0.0	5.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	1,738	1,894	2,091	2,203	2,279
PERFORMANCE INDICATORS					
Saleable production					
Tonnes (000's)	2,358.0	2,437.0	2,607.0	3,116.0	3,244.0
Output/manshift (tonnes)	9.3	8.9	10.0	10.6	10.8

DEFENCE CONSTRUCTION (1951) LIMITED

Appropriate Minister

The Honourable Alfonso Gagliano, P.C., M.P.
Minister of Public Works and Government Services

Chairperson

Reginald W. Lewis

President and Chief Executive Officer

Ross Nicholls

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Auditor

Auditor General of Canada

Incorporation and Status

1951 by the *Defence Production Act* (R.S.C. 1985, c. D-1); continued under the *Canada Business Corporations Act*, November 21, 1978; Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To provide contracting, contract management and environmental project management services to assist with the delivery of the construction program of National Defence. As owner and design authority, National Defence provides the corporation with the necessary land and funding, as well as complete drawings and specifications.

Corporate Profile

Defence Construction (1951) Limited provides service in the following areas:

Architectural/engineering consultant contracting and contract administration: These functions include proposal call and evaluation, selection of pre-qualified consultants and the management of consultant services.

Construction contracting: This includes public advertising, document preparation and distribution to bidders, analysis of tenders and awarding of contracts.

Construction contract management: The corporation is responsible for tasks such as site supervision and inspection, specialized technical support, as well as planning, scheduling and cost control.

Environmental services: The corporation provides environmental support services for contaminated site assessments and investigations. It also manages northern military site clean-up projects and provides environmental management system support.

The period in review was the first fiscal year of the corporation's new service billing system. With this move to full and direct cost recovery, the corporation is no longer dependent on parliamentary appropriations.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	7.0	4.0	3.6	3.2	2.4
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	2.0	0.5	(0.3)	(0.2)	(0.8)
Operations					
Revenues	16.5	18.5	17.9	18.7	18.2
Net income	0.3	0.7	(0.1)	0.6	1.0
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	17.6	16.9	18.1	17.2
Change in budgetary funding	-100%	4%	-7%	5%	16%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	210	221	207	210	241
PERFORMANCE INDICATORS					
Construction contracts completed	1,157 [1]	902	839		
On time (%)	61.6	49.6	64.4		
Within 1 to 30 days (%)	16.1	20.7	13.3		
Construction contracts tracked	924	902	839		
Change orders (%)					
Site conditions/errors and omissions	4.3	3.1	4.7		
Design changes	7.0	5.2	7.4		
Total change orders	11.3	8.3	12.1		

[1] Contracts reaching interim (rather than final) completion in 1997/98.

ENTERPRISE CAPE BRETON CORPORATION

Appropriate Minister

The Honourable John Manley, P.C., M.P.
Minister of Industry

Chairperson and Chief Executive Officer

J. David Nicholson

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Facsimile: (902) 564-3825
Web site: www.ecbc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1988 by the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act, Atlantic Canada, 1987* [S.C. 1988, c. 50]); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To promote and assist the financing and development of industry on Cape Breton Island; to provide employment outside the coal-producing sector; and to broaden the base of the local economy.

Corporate Profile

The Enterprise Cape Breton Corporation (ECBC) takes a lead role in creating a business environment that fosters sustainable job creation and economic growth on Cape Breton Island and the Mulgrave area of Nova Scotia. It promotes these objectives in co-operation with the private and public sectors.

The corporation's activities are focused on a number of priority clusters including tourism, culture and entertainment, knowledge-based industries, resources, and youth and health services. As part of the corporation's restructuring during 1997/98, an oil and gas directorate was created in recognition of the potential economic opportunities associated with the Sable Offshore Energy Project.

In addition to its own programs, ECBC delivers the economic development programs of the Atlantic Canada Opportunities Agency (ACOA) on Cape Breton Island. The president and the chief executive officer of ECBC is also the president of ACOA. This is intended to ensure a close working relationship between the two organizations.

The corporation owns and operates an industrial park, and carries out activities such as a tourism marketing campaign and a summer employment program for students.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	10.2	7.0	4.5	4.5	4.4
Loans from private sector	0.4	1.4	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	4.3	4.1	2.7	2.2	2.4
Operations					
Revenues	1.0	0.8	0.9	0.9	1.1
Net income	(9.5)	(13.4)	(14.5)	(15.7)	(9.9)
Funding from Canada					
Budgetary (operating and capital expenditures)	9.8	14.7	15.0	15.6	9.8
Change in budgetary funding	-33%	-2%	-3%	59%	-3%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	51	47	50	41	45

Export Development Corporation

Appropriate Minister

The Honourable Sergio Marchi, P.C., M.P.
Minister for International Trade

Chairperson

Patrick J. Lavelle

President and Chief Executive Officer

Ian Gillespie

Head Office

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Web site: www.edc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1969 by the *Export Development Act* (R.S.C. 1985, c. E-20) (S.C. 1993, c. 26, in force June 10, 1993); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To support and develop Canada's export trade and Canadian capacity to engage in that trade and respond to international business opportunities.

Corporate Profile

The activities of the Export Development Corporation (EDC) are aimed at reducing the financial risk to Canadian exporters. The corporation's risk management services include export receivables insurance, bonding and guarantee protection. Its financing products include lines of credit and protocols, note purchase arrangements, direct buyer loans, long-term preshipment financing, leveraged lease finance and project risk financing.

Eight business teams have a direct hand in delivering these products. EDC's front-line teams are organized on a sectorial basis. In addition, specialized customer support teams provide expertise in credit surveillance and analysis, economics, equity, foreign investment insurance, international markets and project finance.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	11,852.0	9,706.0	9,428.0	9,375.0	9,154.0
Loans from private sector	9,508.0	7,680.0	7,602.0	7,660.0	7,624.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	1,545.0	1,417.0	1,173.0	1,091.0	895.0
Operations					
Revenues	973.0	890.0	965.0	844.0	699.0
Net income	128.0	112.0	44.0	171.0	41.0
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	132.0	38.0	25.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	25.0
Canada Account					
Financial position					
Assets administered for Canada	2,941.0	2,899.0	2,812.0	2,641.0	2,333.0
Budgetary appropriations	135.0	135.0	148.0	139.0	162.0
EMPLOYMENT	684	602	557	549	541
PERFORMANCE INDICATORS					
Business volume ($ in millions)					
Canada account	1,901.0	436.0	715.0	487.0	1,330.0
Corporate account	28,636.0	22,030.0	17,237.0	11,631.0	11,766.0
Customers served (number of companies)					
Large	468	444	421	354	369
Small or medium	3,243	2,706	2,041	1,792	1,694

FARM CREDIT CORPORATION

Appropriate Minister

The Honourable Lyle Vanclief, P.C., M.P.
Minister of Agriculture and Agri-Food

Chairperson

Donald W. Black

President and Chief Executive Officer

John J. Ryan

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Web site: www.fcc-sca.ca

Auditor

Auditor General of Canada

Incorporation and Status

1959 by the *Farm Credit Act;* continued on April 2, 1993, under the *Farm Credit Corporation Act* (S.C. 1993, c.14); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To deliver specific programs of the Government of Canada on a cost-recovery basis; and to assist Canadian farmers in establishing and developing viable farming enterprises by providing long-term credit and other financial services. The corporation's legislated mandate was expanded in 1993 to include aquaculture, agri-forestry and agri-business.

Corporate Profile

The Farm Credit Corporation makes mortgage loans to farmers for the purchase of farmland, livestock and machinery, permanent farm improvements and debt refinancing. It also lends to farmers for the acquisition of agricultural facilities and equipment, and participates in joint initiatives with provinces and other institutions.

The corporation maintains a corporate office in Regina and serves clients through over 100 offices in farming communities across Canada.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	5,706.2	5,022.5	4,371.4	3,986.3	3,773.6
Loans from private sector	3,513.0	2,485.3	1,730.9	1,270.3	1,049.9
Loans from Canada	1,513.5	2,016.3	2,115.0	2,251.1	2,303.1
Shareholder's equity	549.3	457.7	419.8	359.6	316.9
Operations					
Revenues	463.3	446.6	412.4	385.9	373.1
Net income	41.6	40.6	40.4	42.7	28.3
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	50.0	0.0	220.0	302.0	643.1
Payments to Canada					
Loan repayments	504.0	134.0	356.1	354.0	760.0
Dividends	0.0	2.7	4.0	0.0	0.0
EMPLOYMENT	836	800	772	760	760
PERFORMANCE INDICATORS					
Return on equity (%)	8.3	9.3			
Administrative coverage ratio (X:1)	1.5	1.6			
Loan loss factor (%)	1.8	1.9			

FRESHWATER FISH MARKETING CORPORATION

Appropriate Minister

The Honourable David Anderson, P.C., M.P.
Minister of Fisheries and Oceans

Chairperson and Interim President and Chief Executive Officer

Sam Murdock

Head Office

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Auditor

Auditor General of Canada

Incorporation and Status

1969 by the *Freshwater Fish Marketing Act* (R.S.C. 1985, c. F-13); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To market fish in an orderly manner, to maximize returns to fish producers and to promote international markets and increase trade in fish.

Established with the participation of each of the provinces and the territory in which it operates for the purpose of marketing and trading in fish, fish products and fish by-products in and outside of Canada. The participation of the provinces of Manitoba, Saskatchewan, Alberta and Ontario, and the Northwest Territories was established by agreement with the Government of Canada.

Corporate Profile

The Freshwater Fish Marketing Corporation operates on a self-sustaining basis with no appropriations from Parliament. In practice, the corporation operates much like a producers' co-operative, with the beneficiaries being the commercial fish producers in Manitoba, Saskatchewan, Alberta, the Northwest Territories, and Northwestern Ontario. The corporation has the exclusive right to trade and market the products of the commercial fishery on an interprovincial and export basis. Its primary goal is to achieve the greatest economic returns possible for the commercial fish producers it serves, by providing a range of products and services to its customers.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending April 30[1]					
Financial Position					
Total assets	-	20.1	20.6	17.5	15.9
Loans from private sector	-	13.4	13.8	10.5	9.4
Loans from Canada	-	0.0	0.0	1.0	0.5
Shareholder's equity	-	4.2	4.2	4.2	4.2
Operations					
Revenues	-	43.0	47.1	43.7	38.8
Net income	-	0.0	0.0	0.0	0.2
Funding from Canada					
Budgetary (operating and capital expenditures)	-	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	
Non budgetary (loans and investments)	-	0.0	0.0	0.5	0.0
Payments to Canada					
Loan repayments	-	0.0	1.0	0.0	0.3
Dividends	-	0.0	0.0	0.0	0.0
EMPLOYMENT	33	32	33	38	38

[1] Financial summary for 1997/98 is not available as the 1997/98 annual report had not been tabled in Parliament as of October 30, 1998.

GREAT LAKES PILOTAGE AUTHORITY, LTD.

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson and Chief Executive Officer

Richard G. Armstrong

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Auditor

Auditor General of Canada

Incorporation and Status

1972 by the *Pilotage Act* (R.S.C. 1985, c. P-14); incorporated under the *Canada Corporations Act* in May 1972 as a subsidiary of The St. Lawrence Seaway Authority; deemed to be a parent corporation within the meaning of the *Financial Administration Act* and listed in Schedule III, Part I of that Act; not an agent of Her Majesty.

Mandate

To operate, maintain and administer a safe and efficient pilotage service in all Canadian waters in Ontario and Manitoba, as well as in Quebec south of the northern entrance to the St. Lambert Lock.

Corporate Profile

In addition to providing pilotage services, the Great Lakes Pilotage Authority, Ltd., with the approval of the Governor in Council, makes regulations that prescribe the compulsory pilotage areas; the ships or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

The authority co-ordinates its operations with a number of other organizations such as The St. Lawrence Seaway Authority and the United States Seaway Development Corporation which operate the lock facilities and maintain a traffic control system within the region. Other organizations involved are the Canadian Coast Guard, which provides aids to navigation, and the United States Coast Guard, which is responsible for United States pilotage matters in international waters.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	11.3	10.5	8.3	7.6	2.3
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	5.2	4.0	3.0	1.7	(2.3)
Operations					
Revenues	13.1	12.7	11.3	13.9	9.4
Net income	1.2	1.0	1.3	3.3	0.0
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.6	0.2
Change in budgetary funding	-	-	-100%	313%	-92%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	84	78	81	80	81
PERFORMANCE INDICATORS					
Pilot assignments performed	7,192	6,903	6,091	7,787	5,481
Accident free assignments (%)	99.6	99.6	99.5	99.4	99.5
Average cost of performing an assignment ($)	1,656.0	1,687.0	1,638.0	1,363.0	1,712.0

HALIFAX PORT CORPORATION

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Mervyn C. Russell

President and Chief Executive Officer

David F. Bellefontaine

Head Office

Ocean Terminals
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Halifax NS
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Telephone: (902) 426-3643
Facsimile: (902) 426-7335
Web site: www.portofhalifax.ca

Auditor

Doane Raymond

Incorporation and Status

1984 letters patent of incorporation pursuant to subsection 25 (1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To administer, manage and control the Halifax harbour, and works and property within the harbour.

Corporate Profile

The Halifax Port Corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Halifax Port area. The corporation's business includes breakbulk cargo, grain and cruise vessel traffic.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, local port corporations will become Canada Port Authorities. These new entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors, and port users recommending the majority.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	76.3	74.7	69.4	67.5	66.3
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	70.9	68.2	65.4	63.6	63.1
Operations					
Revenues	15.2	14.0	13.3	11.7	11.2
Net income	3.1	3.1	1.8	0.5	0.3
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.5	0.2	0.2	0.0	0.0
EMPLOYMENT	64	65	63	68	63
PERFORMANCE INDICATOR					
Total port cargo (million tonnes)	14.1	12.9	13.0	14.0	14.1

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

Appropriate Minister

The Honourable Lloyd Axworthy, P.C., M.P.
Minister of Foreign Affairs

Chairperson

Gordon Smith

President and Chief Executive Officer

Maureen O'Neil

Head Office

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Facsimile: (613) 238-7230
Web site: www.idrc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1970 by the *International Development Research Centre Act*, (R.S.C. 1985, c. I-19); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To initiate, encourage, support and conduct research into the problems of the developing regions of the world. The centre also promotes and carries on research into the means for applying and adapting scientific, technical and other knowledge for the economic and social advancement of those regions.

Corporate Profile

The main objective of the International Development Research Centre (IDRC) is to help scientists in developing countries to identify and conduct research into long-term practical solutions to their development problems. To achieve this objective, it funds research, trains researchers and promotes research networks. The centre's Canadian Partnership Program promotes collaborative research between scientists in Canada and those in developing countries.

IDRC's principal source of funding is parliamentary appropriations. It adds to this by entering into co-funding ventures with other donors and pursuing contract research opportunities in collaboration with the private sector.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	55.9	53.3	46.3	43.3	41.3
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	13.8	9.2	7.1	26.0	24.9
Operations					
Revenues	123.7	122.8	117.0	132.5	153.7
Net income	4.6	2.1	1.8	1.1	24.9
Funding from Canada					
Budgetary (operating and capital expenditures)	89.9	97.5	103.4	111.9	142.0
Change in budgetary funding	-8%	-6%	-8%	-21%	21%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	426	357	423	470	467

Laurentian Pilotage Authority

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson and Chief Executive Officer

Jean-Claude Michaud

Head Office

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Auditor

Auditor General of Canada

Incorporation and Status

1972 by the *Pilotage Act* (R.S.C. 1985, c. P-14); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To operate, maintain and administer a safe and efficient pilotage service in the St. Lawrence River between Les Escoumins and the north end of the St. Lambert Lock, in the Saguenay River and in Chaleur Bay north of Cap d'Espoir.

Corporate Profile

The Laurentian Pilotage Authority serves three mandatory pilotage districts: one for the Port of Montreal, another for the navigable waters between Montreal and Quebec City, and a third for the navigable waters between Quebec City and Les Escoumins including the Saguenay River. The authority owns and operates a pilot station at Les Escoumins with pilot boats capable of carrying pilots year round. Pilot stations at Quebec City, Trois Rivières, Sorel, Lanoraie and Montreal are served by private companies under contract to the authority.

In addition to providing pilotage services, the authority with the approval of the Governor in Council makes regulations that prescribe the compulsory pilotage areas; the ships or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	10.6	11.5	10.6	8.1	6.9
Loans from private sector	4.6	5.7	1.8	0.4	0.8
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	2.5	(1.6)	0.5	0.1	(0.7)
Operations					
Revenues	38.2	36.0	34.4	33.4	27.0
Net income	(0.8)	(2.8)	(4.2)	(3.2)	(6.0)
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.7	4.5	5.0	6.2
Change in budgetary funding	-100%	-84%	-9%	-19%	-2%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	223	217	222	241	245
PERFORMANCE INDICATORS					
Number of assignments	20,941	21,342	21,973	22,550	19,216
Number of incidents	26	23	31	34	29
% of incident-free assignments	99.9	99.9	99.9	99.9	99.9

MARINE ATLANTIC INC.

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Moya Cahill

Acting President and Chief Executive Officer

Darrell J. Weaver

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Web site: www.marine-atlantic.ca

Auditor

Auditor General of Canada

Incorporation and Status

1979 by the *Canada Business Corporations Act*; status and ownership changed as of December 31, 1986, pursuant to the *Marine Atlantic Inc. Acquisition Authorization Act* (S.C. 1986, c. 36); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To acquire, establish, manage and operate a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any related service.

Corporate Profile

Marine Atlantic Inc. provides marine ferry services in Atlantic Canada. In 1997, the company's operations included ferry services between North Sydney, Nova Scotia and Port aux Basques, Newfoundland, and between Cape Tormentine, New Brunswick and Borden, Prince Edward Island. The latter was operated only until the completion of the Confederation Bridge on May 31, 1997.

Marine Atlantic Inc. was also responsible for ferry services between Saint John, New Brunswick and Digby, Nova Scotia, and between Yarmouth, Nova Scotia and Bar Harbor, Maine. However, these services were transferred to a private-sector company on April 1, 1997. Marine Atlantic Inc. continues to operate seasonal service between Argentia, Newfoundland and Sydney, Nova Scotia.

Responsibility for the seasonal Labrador coastal freight and passenger service, including a vehicle ferry linking Lewisporte and Goose Bay, was transferred to the Government of Newfoundland and Labrador through a federal-provincial agreement concluded in March 1997. However, Marine Atlantic Inc. continued to operate those services under contract to the province for the 1997 season.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	265.6	326.1	352.4	396.1	403.1
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	(20.4)	(87.6)	(12.3)	(13.2)	(13.4)
Operations					
Revenues	195.2	163.4	95.7	88.6	81.2
Net income	67.2	(75.3)	0.9	0.2	(0.3)
Funding from Canada					
Budgetary (operating and capital expenditures)	98.5	85.7	97.1	108.7	128.3
Change in budgetary funding	15%	-12%	-11%	-15%	4%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	800	2,011	2,019	2,110	2,127
PERFORMANCE INDICATORS					
Gulf service traffic					
Passengers	412,812	396,909	414,194	413,156	419,450
Passenger vehicles	128,923	124,099	127,476	126,437	132,088
Commercial vehicles and 40' equivalent container	67,951	66,856	69,571	69,964	66,485

MONTREAL PORT CORPORATION

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Raymond Lemay

President and Chief Executive Officer

Dominic J. Taddeo

Head Office

Port of Montreal Building
Cité du Havre
Montreal QC
H3C 3R5
Telephone: (514) 283-7011
Facsimile: (514) 283-0829

Auditor

Samson Bélair
Deloitte & Touche

Incorporation and Status

1983 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To administer, manage and control the Montreal harbour, and works and property within the harbour.

Corporate Profile

The Montreal Port Corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Montreal port. The port's business includes the handling of containers, non-container general cargo, and dry and liquid bulk traffic. It also receives cruise traffic.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, local port corporations will become Canada Port Authorities. These new entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors and port users recommending the majority.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	260.8	250.9	243.8	235.4	226.6
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	2.2	2.9	3.5	4.1	4.7
Shareholder's equity	240.5	231.3	221.9	214.9	209.3
Operations					
Revenues	62.3	61.9	60.4	61.5	56.3
Net income	12.4	11.8	9.3	8.7	11.4
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.7	0.6	0.6	0.6	0.5
Dividends	3.2	2.4	2.3	3.1	6.8
EMPLOYMENT	335	335	349	349	349
PERFORMANCE INDICATOR					
Total port cargo (million tonnes)	20.7	19.9	19.2	20.1	16.5

National Arts Centre Corporation

Appropriate Minister

The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson

Jean Thérèse Riley

Interim Director and Chief Executive Officer

Elaine Calder

Head Office

53 Elgin Street
PO Box 1534, Station B
Ottawa ON
K1P 5W1
Telephone: (613) 996-5051
Facsimile: (613) 996-9578
Web site: www.nac-cna.ca

Auditor

Auditor General of Canada

Incorporation and Status

1966 by the *National Arts Centre Act* (R.S.C. 1985, c. N-3); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; not an agent of Her Majesty; a charitable organization for the purposes of the *Income Tax Act*.

Mandate

To play a leadership role in fostering artistic excellence in all of the performing arts disciplines.

Corporate Profile

The National Arts Centre Corporation operates and maintains the National Arts Centre in Ottawa. The corporation develops the performing arts in the National Capital Region and assists the Canada Council in the development of the performing arts elsewhere in Canada.

The corporation fulfils its artistic mandate through the following programs:

- English Theatre;
- French Theatre;
- Music;
- Dance;
- Youth Programs; and
- Festival Canada.

The latter program was revived in 1996/97 after a 14-year hiatus. Other sources of revenue for the corporation include rentals and food services.

Summary Information

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY($ million); financial year ending August 31					
Financial Position					
Total assets	19.3	19.8	19.4	20.0	17.6
Loans from private sector	0.0	0.0	0.3	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	9.2	9.7	10.4	10.1	9.8
Operations					
Revenues	18.7	15.8	17.7	15.2	14.8
Net income	(17.8)	(19.5)	(20.4)	(21.7)	(21.5)
Funding from Canada					
Budgetary (operating and capital expenditures)	18.5	20.6	15.6	24.2	21.5
Change in budgetary funding	-10%	32%	-36%	13%	9%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	231	296	262	285	281
PERFORMANCE INDICATORS					
Attendance as % of capacity					
English theatre	87.0	65.0			
French theatre	86.0	85.0			
Music	79.0	82.0			
Dance and special projects	76.0	72.0			
Rentals and other programming	66.0	68.0			

National Capital Commission

Appropriate Minister

The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson

Marcel Beaudry

Executive-Vice President and General Manager

(Vacant)

Head Office

40 Elgin Street
Ottawa ON
K1P 1C7
Telephone: (613) 239-5555
Facsimile: (613) 239-5039
Web site: www.capcan.ca

Auditor

Auditor General of Canada

Incorporation and Status

1958 by the *National Capital Act* (R.S.C. 1985, c. N-4; amended in 1988 S.C. 1988, c. 54); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To prepare, plan for and assist in the development, conservation and improvement of the National Capital Region; to organize, provide sponsorship for, and promote public activities and events in the National Capital Region to enrich the cultural and social fabric of Canada.

Corporate Profile

The National Capital Commission (NCC) uses marketing campaigns and various outreach projects to promote the National Capital Region. Through the Capital Infocentre and other interpretation programs, the commission informs and educates residents of the region and visitors. It also participates in major events in the National Capital Region, such as the annual Canada Day Celebrations and Winterlude.

The NCC is also responsible for planning the development and use of federal lands in the National Capital Region. As a major landowner in the National Capital Region, the commission manages and maintains its own lands and looks after properties on behalf of others, including the Official Residences of Canada. The NCC's holdings include Gatineau Park, the Greenbelt, and a variety of urban lands, roads, paths, parkways and bridges.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	396.7	396.2	407.2	377.7	369.9
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	360.7	357.7	355.2	327.9	330.0
Operations					
Revenues	22.0	47.0	36.1	24.0	21.6
Net income	(14.8)	(14.5)	10.5	(17.5)	(12.8)
Funding from Canada					
Budgetary (operating and capital expenditures)	72.8	84.2	90.6	102.1	89.5
Change in budgetary funding	-14%	-7%	-11%	14%	0%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	421	376	502	740	802

National Gallery of Canada

Appropriate Minister
The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson
Jean-Claude Delorme

Director and Chief Executive Officer
Pierre Théberge

Head Office
380 Sussex Drive
PO Box 427, Station A
Ottawa ON
K1N 9N4
Telephone: (613) 990-1985
Facsimile: (613) 990-9810
Web site: national.gallery.ca

Auditor
Auditor General of Canada

Incorporation and Status
1990 by the *Museums Act* (S.C. 1990, c. 3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate
To develop, maintain and make known, throughout Canada and internationally, a collection of historic and contemporary works of art with special, but not exclusive, reference to Canada; and to further the knowledge, understanding and enjoyment of art among Canadians.

Corporate Profile

The National Gallery of Canada carries out its mandate through four broad activity areas: adding to and preserving the collections of works of art; educating and communicating; housing and protecting the collections, visitors and staff; and managing its staff and resources. The Gallery also operates the Canadian Museum of Contemporary Photography in Ottawa.

Through purchases, gifts and bequests, the Gallery is continually acquiring Canadian and foreign works for its collections. Its exhibits are shown not only in the National Capital Region, but also in other parts of Canada and around the world.

The Gallery is involved in the publishing of documents including pamphlets and catalogues, as well as in the production of video products. Its Web site includes teacher support kits. The Gallery's programming activities include lectures, symposia, concerts and educational programs.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	25.4	23.6	19.7	19.0	17.4
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	17.1	12.0	10.5	7.9	8.5
Operations					
Revenues	12.8	4.7	5.5	4.3	3.2
Net income	(32.9)	(28.4)	(31.8)	(34.4)	(29.6)
Funding from Canada					
Budgetary (operating and capital expenditures)	36.0	29.8	34.4	34.4	28.7
Change in budgetary funding	21%	-13%	0%	20%	-2%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	251	257	276	285	284

National Museum of Science and Technology Corporation

Appropriate Minister

The Honourable Sheila Copps, P.C., M.P.
Minister of Canadian Heritage

Chairperson

David W. Strangway

Director and Chief Executive Officer

Geneviève Sainte-Marie

Head Office

2380 Lancaster Road
PO Box 9724, Station T
Ottawa ON
K1G 5A3
Telephone: (613) 991-3044
Facsimile: (613) 990-3636
Web site: www.nmstc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1990 by the *Museums Act* (S.C. 1990, c. 3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technical objects with special, but not exclusive, reference to Canada, and by demonstrating the products and processes of science and technology, as well as their economic, social and cultural relationships with society.

Corporate Profile

The National Museum of Science and Technology Corporation is responsible for the development and management of a representative collection of scientific and technological artifacts and materials which focusses on seven major subject areas – aviation, communications, industrial technology, natural resources, renewable resources, scientific instrumentation and transportation.

The corporation manages three museum sites: the National Museum of Science and Technology, the Agriculture Museum and the National Aviation Museum. Each museum sets its own public programming activities and strategies in recognition of the different markets and clientele each serves. The museums operate under a common set of corporate policies. Support services such as human resources, finance and facilities management are provided centrally.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	12.9	11.6	11.0	9.7	9.3
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	7.9	7.3	7.1	5.3	6.1
Operations					
Revenues	4.1	3.7	3.3	3.0	2.2
Net income	(20.0)	(19.5)	(19.0)	(21.7)	(15.5)
Funding from Canada					
Budgetary (operating and capital expenditures)	20.0	19.7	20.8	20.9	16.2
Change in budgetary funding	1%	-5%	0%	29%	1%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	233	228	220	225	218
PERFORMANCE INDICATORS					
Attendance					
National Museum of Science and Technology	401,577	409,446	403,208		
Agriculture Museum	138,014	120,194	109,394		
National Aviation Museum	160,065	145,154	144,938		
Total	699,656	674,794	657,540		

Old Port of Montreal Corporation Inc.

Appropriate Minister

The Honourable Alphonso Gagliano, P.C., M.P.
Minister of Public Works and Government Services

Chairperson

Bernard Lamarre

President and Chief Executive Officer

Pierre Émond

Head Office

333 rue de la Commune West
Montreal QC
H2Y 2E2
Telephone: (514) 283-5256
Facsimile: (514) 283-8423
Web site: www.svpm.ca

Auditor

Auditor General of Canada

Incorporation and Status

1981 under the *Canada Business Corporations Act*; a wholly owned subsidiary of the Canada Lands Company Limited; directed by Order in Council (P.C. 1987-86) to report as if it were a parent Crown corporation; an agent of Her Majesty.

Mandate

To develop the Old Port of Montreal site; and to manage and maintain the Crown property in that location.

Corporate Profile

The Old Port of Montreal Corporation Inc. is responsible for managing and developing the Old Port site in Montreal. It operates an IMAX® theatre and an outdoor skating rink, and offers year-round activities for visitors. Sources of independent revenue include theatre admissions, parking, food services and sponsorships. Every year, 20 partner companies sell 1.5 million tickets for shows, cruises, bicycle rentals and other activities. The Old Port site received almost six million visitors during the 1997/98 fiscal year.

With the support of the federal government, the corporation is developing the Montreal Interactive Science Centre – an exhibition, entertainment and business centre that is scheduled to open on May 1, 2000.

The corporation has also begun the process of redeveloping the nine-storey Old Port cold storage warehouse into a project that will integrate the existing structure with a new building, and that will include housing, a hotel, a large ballroom, businesses, new parking and services. The total cost of this construction project is to be covered by the private sector.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	3.0	1.4	2.1	2.0	4.0
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	0.0	0.0	0.0	0.0	0.0
Operations					
Revenues	8.2	8.3	10.4	8.9	7.8
Net income	(7.4)	(3.5)	(2.3)	(3.6)	(5.0)
Funding from Canada					
Budgetary (operating and capital expenditures)	9.0	3.8	3.5	3.0	9.7
Change in budgetary funding	137%	9%	17%	-69%	-55%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	81	77	72	69	67

PACIFIC PILOTAGE AUTHORITY

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson and Chief Executive Officer

Dennis B. McLennan

Head Office

300 – 1199 West Hastings Street
Vancouver BC
V6E 4G9
Telephone: (604) 666-6771
Facsimile: (604) 666-1647
E-mail: admins@ppa.gc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1972 pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To operate, maintain and administer a safe and efficient pilotage service in the coastal waters of British Columbia.

Corporate Profile

The Pacific Pilotage Authority provides pilotage services within a commercially oriented framework directed towards maintaining financial self-sufficiency through tariffs. Employee pilots provide services on the Fraser River. In other coastal waters, pilotage services are provided under a contract with a local licensed pilot company.

In addition to providing pilotage services, the authority with the approval of the Governor in Council makes regulations that prescribe the compulsory pilotage areas; the ships or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	7.2	5.8	5.6	6.4	7.9
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	3.6	2.3	2.2	3.3	4.9
Operations					
Revenues	39.8	36.0	34.2	33.7	31.0
Net income	1.3	0.2	(1.1)	(1.6)	0.1
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	167	167	170	168	171
PERFORMANCE INDICATORS					
Number of assignments					
Coastal	13,278	12,713	12,497	13,177	11,980
Fraser River	934	690	702	876	891
Assignments free of incidents (%)	99.8	99.9	99.9	99.9	99.8

PETRO-CANADA LIMITED

Appropriate Minister

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Chairperson

Robert Hamilton

President

Joy F. Kane

Head Office

c/o Department of Finance Canada
L'Esplanade Laurier
140 O'Connor Street
Ottawa ON
K1A 0G5

Auditor

Auditor General of Canada

Incorporation and Status

1975 by the *Petro-Canada Act* (R.S.C. 1985: c. P-11); continued as Petro-Canada Limited on February 1, 1991 under the *Petro-Canada Public Participation Act*; Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

Petro-Canada Limited was the parent Crown corporation of Petro-Canada, which was privatized in July 1991. Upon privatization, Petro-Canada refinanced its previously government-backed debt with the proceeds going to Petro-Canada Limited.

Corporate Profile

The role of Petro-Canada Limited is to manage its investment portfolio and to meet its obligations on its outstanding bonds. At the end of the period in review, the corporation's revenues from the securities in the investment portfolio and its cash reserves were sufficient to meet future cash-flow requirements on its outstanding bonds and future operating costs.

The corporation, which has no employees, is managed by officials of the Department of Finance Canada.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	464.0	448.0	524.0	554.0	526.0
Loans from private sector	427.0	409.0	479.0	505.0	479.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	4.0	3.0	2.0	1.0	0.0
Operations					
Revenues	38.0	40.0	43.0	45.0	42.0
Net income	1.0	1.0	1.0	1.0	1.0
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	8.0
EMPLOYMENT	0	0	0	0	0

PORT OF QUEBEC CORPORATION

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Michel Bérubé

President and Chief Executive Officer

Ross Gaudreault

Head Office

150 Dalhousie Street
PO Box 2268
Quebec QC
G1K 7P7
Telephone: (418) 648-3558
Facsimile: (418) 648-4160
Web site: www.portquebec.ca

Auditor

Mallette Maheu

Incorporation and Status

1984 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To administer, manage and control the Quebec City harbour, and works and property within the harbour.

Corporate Profile

The Port of Quebec Corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Quebec City harbour. The Port of Quebec is the oldest port in the North American market. Its business includes the handling of liquid and solid bulk, grain, chemicals and general non-containerized goods. In addition, major cruise lines have been calling at the port.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, local port corporations will become Canada Port Authorities. These new entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors, and port users recommending the majority.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	62.9	61.9	61.6	61.8	64.1
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	59.4	59.1	52.3	52.3	54.3
Operations					
Revenues	14.7	13.2	12.2	11.7	11.1
Net income	0.3	0.5	0.0	(2.0)	(2.9)
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	57	57	58	88	88
PERFORMANCE INDICATOR					
Total port cargo (million tonnes)	15.5	17.2	17.8	16.1	13.7

PRINCE RUPERT PORT CORPORATION

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Rhoda Witherly

President and Chief Executive Officer

Donald H. Krusel

Head Office

110 Third Avenue West
Prince Rupert BC
V8J 1K8
Telephone: (250) 627-7545
Facsimile: (250) 627-7101
Web site: www.rupertport.com

Auditor

KPMG

Incorporation and Status

1984 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To administer, manage and control the Prince Rupert harbour, and works and property within the harbour.

Corporate Profile

The Prince Rupert Port Corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Prince Rupert harbour. The port's business includes the handling of grain, pulp, coal, forest products, and ferry and cruise ship traffic.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, local port corporations will become Canada Port Authorities. These new entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors, and port users recommending the majority.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	105.3	112.3	111.7	111.6	111.7
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	10.0	15.3	15.8	16.2
Shareholder's equity	103.4	100.7	95.0	94.4	93.5
Operations					
Revenues	13.7	13.3	13.7	13.2	13.5
Net income	2.7	0.7	0.7	0.9	(0.1)
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	5.0	0.0	0.0	0.0
Change in budgetary funding	-100%	-	-	-	-
Non budgetary (loans and investments)	0.0	(5.0)	0.0	0.0	0.0
Payments to Canada					
Loan repayments	10.0	0.3	0.4	0.4	0.4
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	17	17	17	17	17
PERFORMANCE INDICATOR					
Total port cargo (million tonnes)	13.1	10.1	11.5	13.8	11.7

QUEENS QUAY WEST LAND CORPORATION

Appropriate Minister

The Honourable Alfonso Gagliano, P.C., M.P.
Minister of Public Works and Government Services

Chairperson and President

David F. Ellis

Head Office

Suite 1500
200 King Street West
Toronto ON
M5H 3T4
Telephone: (416) 952-6100
Facsimile: (416) 952-6200

Auditor

Auditor General of Canada

Incorporation and Status

1936 as Terminal Warehouses Ltd. under the *Ontario Companies Act*; July 14, 1978, as Harbourfront Corporation, under the *Business Corporations Act of Ontario*; continued under the *Canada Business Corporations Act*, December 21, 1984; Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

Formerly responsible for operating, managing, maintaining and developing the Harbourfront site in Toronto. The corporation's mandate is to dissolve itself once it fulfils its remaining obligations.

Corporate Profile

Queens Quay West Land Corporation operates the Harbourfront site in Toronto under an agreement with the federal government. Most of the original 100-acre site has been conveyed to the City of Toronto. Currently, the corporation holds only two properties consisting of 5.8 acres. These properties are located at 200 Queens Quay West and 545 Lakeshore Boulevard West.

In August 1996, the management of the corporation was transferred from the Canada Development Investment Corporation to Canada Lands Company CLC Limited, which provides staff, facilities and corporate administration. In addition, as the need arises, it continues to retain other consultants and advisors to assist with the implementation of its mandate.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	1.9	3.0	5.8	8.5	23.5
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	45.8	45.8	45.8	45.8	45.8
Shareholder's equity	(45.0)	(44.7)	(42.5)	(39.9)	(26.0)
Operations					
Revenues	0.4	1.7	3.0	3.6	3.8
Net income	(0.3)	(2.2)	(2.6)	(14.9)	(8.2)
Funding from Canada					
Budgetary (operating and capital expenditures)	4.1	6.7	7.5	9.8	0.0
Change in budgetary funding	-39%	-11%	-23%	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	20.7
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	0	0	0	6	5

ROYAL CANADIAN MINT

Appropriate Minister

The Honourable Alfonso Gagliano, P.C., M.P.
Minister of Public Works and Government Services

Chairperson

José Blanco

President and Master of the Mint

Danielle V. Wetherup

Head Office

320 Sussex Drive
Ottawa ON
K1A 0G8
Telephone: (613) 993-3500
Facsimile: (613) 952-8342
Web site: www.rcmint.ca

Auditor

Auditor General of Canada

Incorporation and Status

1969 by the *Royal Canadian Mint Act* (R.S.C. 1985, c. R-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To mint coins in anticipation of profit and to carry out other related activities. Founded in 1908 as a branch of the Mint of the United Kingdom, its operations were devolved to the Crown in right of Canada in 1931. Initially a departmental agency of the government, the Mint was incorporated by legislation in 1969. In 1987, a share-capital structure was created for the Mint, and shares were issued to Canada.

Corporate Profile

The Royal Canadian Mint is responsible for minting the nation's circulation coins. Internationally, the Mint generates commercial revenue by offering a wide range of specialized coin products and related services.

The Mint owns two facilities – one in Ottawa and the other in Winnipeg. The Ottawa facility includes the corporate head office, the gold refinery, and production facilities for numismatic and bullion coins, medals and medallions. The Winnipeg Plant produces all of Canada's circulation coins as well as circulation coins for foreign countries. A new plating facility is being constructed at the Winnipeg plant and is scheduled to open in 2000.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	105.5	85.5	90.7	82.5	92.8
Loans from private sector	10.0	0.0	6.4	0.0	0.0
Loans from Canada	0.0	0.1	0.2	2.8	5.5
Shareholder's equity	64.8	60.8	59.3	60.6	69.1
Operations					
Revenues	426.0	317.3	310.6	310.4	356.8
Net income	3.9	1.5	(1.3)	(3.5)	7.1
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.1	0.1	2.7	2.7	2.7
Dividends	0.0	0.0	0.0	5.0	6.3
EMPLOYMENT	603	510	550	563	610
PERFORMANCE INDICATORS					
Return on capital (%)	6.3	2.9	(1.7)	(4.3)	10.4
Export sales - % of total sales	78.0	59.0	68.0	64.0	65.0
Production in millions of pieces					
Canadian circulation coins	624.3	998.7	907.8	1.075.5	1.225.8
Coinage for the world	1,398.4	788.3	853.4	600.3	841.2
Refining services					
Gross weight received in millions of Troy ounces	3.0	2.5	2.2	2.3	2.7

SAINT JOHN PORT CORPORATION

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Peter S. Glennie

President and Chief Executive Officer

Captain Alwyn G. Soppitt

Head Office

133 Prince William Street
PO Box 6429, Station A
Saint John NB
E2L 4R8
Telephone: (506) 636-4869
Facsimile: (506) 636-4443

Auditor

Ernst & Young

Incorporation and Status

1986 by letters patent pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To administer, manage and control the Saint John harbour, and works and property within the harbour.

Corporate Profile

The Saint John Port Corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Saint John harbour. The port's business includes the handling of potash, forest products, salt, petroleum products and container traffic.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, local port corporations will become Canada Port Authorities. These new entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors, and port users recommending the majority.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	71.3	69.5	64.1	64.1	84.5
Loans from private sector	0.0	0.0	19.7	19.7	19.7
Loans from Canada	0.0	0.0	18.1	18.1	18.1
Shareholder's equity	65.3	63.9	24.0	23.9	44.2
Operations					
Revenues	12.5	13.9	12.6	12.5	12.1
Net income	1.5	2.1	0.2	(20.4)	(1.7)
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	18.1	0.0	0.0	0.0
Change in budgetary funding	-100%	-	-	-	-100%
Non budgetary (loans and investments)	0.0	(18.1)	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	2.0
Dividends	0.1	0.0	0.0	0.0	0.0
EMPLOYMENT	24	36	36	36	36
PERFORMANCE INDICATOR					
Total port cargo (million tonnes)	21.0	21.0	18.8	21.1	19.6

St. John's Port Corporation

Appropriate Minister
The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson
Melvin Woodward

Port Manager and Chief Executive Officer
Sean Hanrahan

Head Office
3 Water Street
PO Box 6178
St. John's NF
A1C 5X8
Telephone: (709) 772-4664
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E-mail: sjpc.richard@ns.sympatico.ca

Auditor
Doane Raymond

Incorporation and Status
1985 by letters patent pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate
To administer, manage and control the St. John's harbour, and works and property within the harbour.

Corporate Profile

The St. John's Port Corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in St. John's harbour. The port's business includes the handling of containerized general cargo, new vehicles and petroleum products.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, local port corporations will become Canada Port Authorities. These new entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors, and port users recommending the majority.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	18.1	17.6	16.8	16.5	16.3
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	17.3	16.7	16.1	15.7	15.4
Operations					
Revenues	3.4	3.4	3.2	3.3	3.4
Net income	0.6	0.6	0.4	0.4	0.5
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	1.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	16	13	14	13	13
PERFORMANCE INDICATOR					
Total port cargo (thousand tonnes)	954.0	832.0	866.0	942.0	860.0

St. Lawrence Seaway Authority, The

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

President

Michel Fournier

Head Office

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Telephone: (613) 598-4600
Facsimile: (613) 598-4620
Web site: www.seaway.ca

Auditor

Auditor General of Canada

Incorporation and Status

1954 pursuant to section 3 of the *St. Lawrence Seaway Authority Act* (R.S.C. 1985, c. S-2); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.

Mandate

To construct, operate and maintain canals, bridges, works and other property related to the deep waterway between the Port of Montreal and Lake Erie, which is known as the St. Lawrence Seaway.

Corporate Profile

The St. Lawrence Seaway Authority constructed the St. Lawrence Seaway and operates it in conjunction with an authority in the United States. It is responsible for 13 locks in Canadian territory and four high-level bridges traversing the St. Lawrence River. Two locks in the United States are operated by the St. Lawrence Seaway Development Corporation. Tolls may be established by filing with the Canadian Transportation Agency or by agreement between Canada and the United States.

A wholly owned subsidiary, The Seaway International Bridge Corporation, Ltd., was established in 1962. It manages the international bridge at Cornwall, Ontario. Two bridges in Montreal are managed by The Jacques Cartier and Champlain Bridges Incorporated, which is also a wholly owned subsidiary of The St. Lawrence Seaway Authority. The authority administers the Canadian span of the Thousand Islands Bridge. A third wholly owned subsidiary, Great Lakes Pilotage Authority, Ltd., has been designated as a parent Crown corporation for the purposes of the *Financial Administration Act*.

The *Canada Marine Act*, which received Royal Assent on June 11, 1998, allows the Minister of Transport to enter into an agreement with a not-for-profit corporation that accords a major role to seaway users or with any other person or body established under

an international agreement. On October 2, 1998, operational responsibility for the Great Lakes/St. Lawrence Seaway system was transferred to the St. Lawrence Seaway Management Corporation, a private-sector corporation.

The St. Lawrence Seaway Authority is to be dissolved on the date fixed by the Governor in Council. Its subsidiary bridge corporations will be converted to parent Crown corporations.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	613.9	609.8	601.7	592.9	577.8
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	576.8	578.2	575.2	570.6	554.1
Operations					
Revenues	94.0	93.4	88.3	90.6	76.4
Net income	(1.4)	2.9	4.6	17.4	(4.0)
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-100%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	773	711	730	731	741

Standards Council of Canada

Appropriate Minister

The Honourable John Manley, P.C., M.P.
Minister of Industry

Chairperson

Linda Anne Lusby

Executive Director

(Vacant)

Head Office

Suite 1200
45 O'Connor Street
Ottawa ON
K1P 6N7
Telephone: (613) 238-3222
Facsimile: (613) 995-4564
Web site: www.scc.ca

Auditor

Auditor General of Canada

Incorporation and Status

1970 by the *Standards Council of Canada Act* (R.S.C. 1996, c. 24); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To promote efficient and effective voluntary standardization in Canada where standardization is not expressly provided for by law. These activities are aimed at advancing the national economy, supporting sustainable development, and benefiting the health, safety and welfare of workers and the public. These functions are also intended to assist and protect consumers, facilitate domestic and international trade, and further international co-operation in relation to standardization.

Corporate Profile

The Standards Council of Canada promotes the participation of Canadians in voluntary standards activities. It promotes public and private sector co-operation in relation to voluntary standardization, and co-ordinates and oversees the efforts of persons and organizations involved in the National Standards System.

The council represents Canada's interests internationally through its membership in the International Organization for Standardization and the International Electrotechnical Commission. The council also serves as the repository and focal point for national and international standards for distribution to Canadian industry.

Summary Information

	1997/98	1996/97	1995/96	1994/95	1993/94
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	4.1	4.2	3.4	3.3	2.8
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	2.4	2.4	2.2	1.9	1.6
Operations					
Revenues	5.2	5.1	4.6	4.2	3.3
Net income	0.0	0.2	0.2	0.4	0.3
Funding from Canada					
Budgetary (operating and capital expenditures)	5.1	5.2	5.3	5.4	5.6
Change in budgetary funding	-1%	-2%	-3%	-3%	-4%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	70	72	72	68	60

VANCOUVER PORT CORPORATION

Appropriate Minister
The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson
Carole Taylor

President and Chief Executive Officer
Captain Norman C. Stark

Head Office
1900 Granville Square
200 Granville Street
Vancouver BC
V6C 2P9
Telephone: (604) 666-3226
Facsimile: (604) 666-1207
Web site: www.portvancouver.com

Auditor
KPMG

Incorporation and Status
1983 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.

Mandate
To administer, manage and control the Vancouver harbour, and works and property within the harbour.

Corporate Profile

The Vancouver Port Corporation is an autonomous local port corporation that provides the services necessary for Canada's international shipping trade in the Vancouver harbour. The port handles coal, grain, sulphur, potash, pulp and lumber, as well as cruise traffic.

Under the *Canada Marine Act*, which received Royal Assent on June 11, 1998, local port corporations will become Canada Port Authorities. These new entities will be non-share-capital, shared-governance corporations with municipalities and provinces each appointing a member to the board of directors, and port users recommending the majority. In the case of the Vancouver Port Authority, an additional director will be appointed by the provinces of Alberta, Saskatchewan and Manitoba acting together.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	533.1	533.7	447.6	382.9	366.9
Loans from private sector	134.6	135.9	44.2	0.0	0.0
Loans from Canada	0.0	1.7	2.1	2.4	2.7
Shareholder's equity	366.1	361.0	364.8	357.1	344.2
Operations					
Revenues	79.8	69.0	66.6	66.3	60.2
Net income	5.1	(0.5)	12.1	15.8	11.1
Funding from Canada					
Budgetary (operating and capital expenditures)	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	1.7	0.4	0.3	0.3	0.3
Dividends	0.0	3.3	4.4	3.0	6.6
EMPLOYMENT	179	180	181	145	145
PERFORMANCE INDICATOR					
Total port cargo (million tonnes)	73.5	72.0	71.5	67.6	60.7

VIA Rail Canada Inc.

Appropriate Minister

The Honourable David Collenette, P.C., M.P.
Minister of Transport

Chairperson

Marc LeFrançois

President and Chief Executive Officer

Roderick J. Morrison

Head Office

6th Floor
2 Place Ville-Marie
PO Box 8116, Station A
Montreal QC
H3C 3N3
Telephone: (514) 871-6000
Facsimile: (514) 871-6619
Web site: www.viarail.ca

Auditor

Raymond Chabot Grant Thornton
Auditor General of Canada

Incorporation and Status

1977 under the *Canada Business Corporations Act*; Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.

Mandate

To manage and provide a safe and efficient passenger rail service.

Corporate Profile

VIA Rail Inc. is Canada's national passenger rail company. Since its creation in 1978, the corporation has operated passenger trains on a cross-Canada network stretching from the Atlantic Ocean to the Pacific Ocean and from the Great Lakes to Hudson Bay. The company's network comprises 14,000 kilometres of track carrying 430 trains per week.

In 1997, with approximately 3,000 employees, VIA Rail Inc. operated 429 trains weekly serving more than 400 communities across the country, carried 3.8 million passengers, and earned $190.5 million in total operating revenues.

In January 1998, the Minister of Transport asked the Standing Committee on Transport (SCOT) to review the passenger rail system and examine creative ways to revitalize VIA Rail. Following extensive stakeholder and public consultation, SCOT tabled its report entitled *The Renaissance of Passenger Rail in Canada* in the House of Commons on June 11, 1998.

Following the release of the report, the Minister of Transport announced on October 21, 1998, that Transport Canada and VIA Rail will be working together over the coming months to prepare a strategic long-term business plan that will outline VIA's route network, levels of service, funding requirements and proposals for equipment renewal. To help control costs and improve VIA Rail's overall service, the federal government will also encourage public/private partnerships and consider franchising certain VIA routes to the private sector.

Summary Information

	1997	1996	1995	1994	1993
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	688.1	712.5	783.4	790.4	812.5
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	563.0	591.0	640.5	626.9	640.9
Operations					
Revenues	190.6	184.5	175.0	176.4	164.2
Net income	(44.5)	(70.1)	(26.1)	(39.3)	(47.5)
Funding from Canada					
Budgetary (operating and capital expenditures)	228.7	245.2	295.4	318.2	348.1
Change in budgetary funding	-7%	-17%	-7%	-9%	-10%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	2,969	3,000	3,178	3,718	4,131
PERFORMANCE INDICATORS					
Passengers (000)	3,765	3,666	3,597	3,586	3,570
Passenger miles (000,000)	884.0	892.0	859.0	834.0	820.0
Government operating funding per passenger mile (cents)	24.0	25.2	29.8	35.1	41.0
Average passenger load factor (%)	58.0	59.0	61.0	60.0	59.0
On-time performance (%)	84.0	84.0	86.0	87.0	90.0
Revenue/cash operating expenses ratio (%)	49.3	47.3	44.0	40.2	33.8

CORPORATE HOLDINGS

This chapter presents information on Crown corporations and their corporate holdings as of August 31, 1998. The information is provided in three parts:

Statistical Summary shows the number of parent Crown corporations, subsidiaries and associates on a comparative basis with those of the previous year.

Changes During the Year shows the changes that have occurred in each parent Crown corporation's subsidiaries and associates between August 31, 1997 and August 31, 1998.

Crown Corporations' Corporate Holdings contains a comprehensive list of parent Crown corporations and their subsidiaries and associates.

STATISTICAL SUMMARY

Number of Parent Crown Corporations, Their Wholly Owned Subsidiaries, and Other Subsidiaries and Associates

(as of August 31)

	1998	1997
Parent Crown corporations	48	47
Wholly owned subsidiaries	23	25
Other subsidiaries and associates	21	23

CHANGES DURING THE YEAR

Canada Development Investment Corporation	
Theratronics International Limited and its subsidiary	Deleted
- Meicor Inc. (65%)	Deleted
Canada Lands Company Limited	
Canada Lands Company Limited (Vieux-Port-de-Québec) Inc.	Deleted
CLC Downsview Inc.	Added
CN Tower Limited	Deleted
Canada Pension Plan Investment Board	Added
Canada Post Corporation	
2717786 Canada Inc.	Deleted

CROWN CORPORATIONS' CORPORATE HOLDINGS

1. Atlantic Pilotage Authority

2. Atomic Energy of Canada Limited

Subsidiaries held at 100%

- AECL Technologies B.V.
- AECL Technologies Inc.

3. Bank of Canada

4. Business Development Bank of Canada

Associate held at less than 50%

- Cominco Ltd.[1]

5. Canada Council

6. Canada Deposit Insurance Corporation

7. Canada Development Investment Corporation

Subsidiaries held at 100%

- Canada Eldor Inc.
- Canada Hibernia Holding Corporation and its associate
  - Hibernia Management and Development Company Ltd. (8.5%)

Associate held at less than 50%

- Varity Corporation[1]

8. Canada Lands Company Limited

Subsidiaries held at 100%

- 3148131 Canada Limited[2]
- Canada Lands Company CLC Limited
- CLC Downsview Inc.[3]
- Old Port of Montreal Corporation Inc.[4]

9. Canada Mortgage and Housing Corporation

10. Canada Pension Plan Investment Board

11. Canada Ports Corporation

Subsidiary held at 100%

- Ridley Terminals Inc.

12. Canada Post Corporation

Subsidiaries held at 100%

- 2875039 Canada Limited
- 2875047 Canada Limited
- 3106900 Canada Inc.
- Canada Post Systems Management Ltd.
- Canada Post Holdings and its subsidiary
  - PCL Courier Holdings Inc. (75%) and its subsidiaries
    - 964102 Ontario Inc. (100%)
    - Purolator Courier Ltd. (100%) and its subsidiaries
      - Canadian Teleservices Corporation (100%)
      - Distribution Management Services Inc. (100%)
      - Purolator Customs Services Ltd. (100%)
      - Supercourier (1987) Ltd. (100%)

Associates held at less than 50%

- Cooperative Vereniging International Post Corporation U.A. (6.2%) and its subsidiaries
  - IPC Technology S.C. (96%)
  - IPC Unipost S.C. (96%)

13. Canadian Broadcasting Corporation

Associates held at less than 50%

- Cable North Microwave Limited (1 share)
- Master FM Limited (20%)
- Visnews Limited (1 share)

14. Canadian Commercial Corporation

15. Canadian Dairy Commission

16. Canadian Film Development Corporation

17. Canadian Museum of Civilization

18. Canadian Museum of Nature

19. Canadian Race Relations Foundation

20. Canadian Wheat Board, The

21. Cape Breton Development Corporation

Subsidiary held at 100%

- Cape Breton Carbofuels Limited[2]

22. Defence Construction (1951) Limited

23. Enterprise Cape Breton Corporation

Subsidiaries held at 100%

- Cape Breton Marine Farming Limited[2]
- DARR (Cape Breton) Limited[2]
- Gulf Bras D'Or Estates Limited[2]

Associates held at less than 50%

- Bell Bray Golf Developments Incorporated
- Canadian Tennis Technology Limited
- General Mining Building Limited
- Lynwood Inn Limited
- Silver Screen Star Limited

24. Export Development Corporation

Subsidiary held at 100%

- Exinvest Inc.

25. Farm Credit Corporation

26. Freshwater Fish Marketing Corporation

27. Great Lakes Pilotage Authority, Ltd.

28. Halifax Port Corporation

29. International Development Research Centre

30. Laurentian Pilotage Authority

31. Marine Atlantic Inc.

32. Montreal Port Corporation

Subsidiary held at 100%

- 176422 Canada Inc.

33. National Arts Centre Corporation

34. National Capital Commission

35. National Gallery of Canada

36. National Museum of Science and Technology

37. Pacific Pilotage Authority

38. Petro-Canada Limited

39. Port of Quebec Corporation

40. Prince Rupert Port Corporation

41. Queens Quay West Land Corporation

42. Royal Canadian Mint

43. Saint John Port Corporation

44. St. John's Port Corporation

45. St. Lawrence Seaway Authority, The

Subsidiaries held at 100%

- Great Lakes Pilotage Authority, Ltd.[5]
- The Jacques Cartier and Champlain Bridges Incorporated
- The Seaway International Bridge Corporation, Ltd.

46. Standards Council of Canada

47. Vancouver Port Corporation

Subsidiary held at 100%

- Canada Place Corporation

48. VIA Rail Canada Inc.

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[1] Only non-voting preferred shares are held.

[2] Inactive corporation.

[3] Incorporated in July 1998, but not operational as of August 31, 1998.

[4] Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed by Order in Council (P.C. 1987/86) to report as if it were a parent Crown corporation.

[5] Not included in the statistical summary of wholly owned subsidiaries. Pursuant to the *Pilotage Act*, the *Financial Administration Act* (FAA) applies to the Great Lakes Pilotage Authority as if it were a parent Crown corporation within the meaning of the FAA.

Other Corporate Interests

This chapter provides information on:

- share-capital corporations partially owned by the federal government;
- corporations without share capital (for example, not-for-profit corporations) for which the government has a legal right to appoint, or approve the appointment of, at least one member to the board of directors or other governing body; and
- organizations formed pursuant to an international agreement where the federal government holds shares in the organization or has a right to appoint, or approve the appointment of, some number of members to the governing body.

For share-capital corporations, the listing shows the degree of federal ownership. For non-share-capital corporations, this year's listing has been modified to include fractions showing the number of federally appointed board members over the total number of board members.

This new feature is intended to illustrate the degree of federal influence over an entity in cases where control cannot be expressed in terms of share ownership. Thus, in this context, a "federal appointee" may be an individual appointed by Order of the Governor in Council or by any one of a number of other mechanisms. Examples of such mechanisms may include appointment by a minister or by a Crown corporation. Federal public servants occupying board positions on an *ex officio* basis are also counted as federal appointees for these purposes.

Corporations named in this chapter are grouped as follows:[1]

Mixed Enterprises

Corporate entities whose shares are partially owned by Canada, through a minister. Private-sector parties own the remaining shares.

Joint Enterprises

Corporate entities whose shares are partially owned by Canada, through a minister. The balance of shares is owned by another level of government.

International Organizations

International organizations are corporate entities created pursuant to international agreements under which Canada holds shares or has a right to appoint or elect some number of members to a governing body.

Other Entities

This category includes corporate entities in which Canada holds no shares but, either directly or through a Crown corporation, has a right pursuant to statute, articles of incorporation, letters patent or by-law, to appoint or nominate one or more members to the governing body.

Corporations under the terms of the *Bankruptcy and Insolvency Act*

This group includes corporate entities whose shares are partially owned by Canada following receipt by a trustee in bankruptcy.

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[1] This chapter does not include departmental corporations such as the Canadian Food Inspection Agency. Although they are similar to Crown corporations in that they are wholly owned by the federal government, departmental corporations are specifically excluded from the *Financial Administration Act* (FAA) definition of a "Crown corporation". Instead, departmental corporations are defined as departments under the FAA and, as such, are subject to a different accountability regime.

NUMBER OF OTHER CORPORATE INTERESTS

Year-Over-Year Comparison

Other Corporate Interests of Canada	March 31, 1998	March 31, 1997
Mixed enterprises	2	3
Joint enterprises	3	3
International organizations	17	20
Other entities	98	87
Corporations under the terms of the *Bankruptcy and Insolvency Act*	15	6

OTHER CORPORATE INTERESTS - ADDITIONS AND DELETIONS

During the year ending March 31, 1998

Mixed Enterprises	
National Sea Products Limited	Deleted
Joint Enterprises	No Additions or Deletions
International Organizations	
Great Lakes Fishery Commission	Deleted
International Pacific Halibut Commission	Deleted
Pacific Salmon Commission	Deleted
Other Entities	
1997 Brandon Canada Games Society Inc.	Deleted
2001 London Alliance Canada Summer Games Host Society Inc.	Added
Calgary Airport Authority	Added
Canada-Alberta Beef Industry Development Fund	Added
Canada-Alberta Hog Industry Development Fund	Added
Canada-Alberta Sugar Beet Industry Development Fund	Added
Canada-Manitoba Agri-Food Research and Development Initiatives	Added
Canada-Newfoundland Agri-Food Innovation Fund	Added

Canadian Centre for Swine Improvement (CCSI)	Deleted
Canadian Dairy Network (CDN)	Deleted
Canadian Fitness and Lifestyle Research Institute	Deleted
Canadian Sport and Fitness Administration Centre	Deleted
Charlottetown Airport Authority Inc.	Added
Club Export Agro-alimentaire du Québec	Deleted
Conseil pour le développement de l'agriculture du Québec (CDAQ)	Added
Fonds québécois d'adaptation des entreprises agroalimentaires	Added
Gander International Airport Authority	Added
Greater Fredericton Airports Authority Inc.	Added
Inno-Centre	Deleted
New Brunswick Biotechnology and Technological Innovation Centre of Excellence Inc. (BioAtlantech)	Added
Nova Scotia Apple Industry Development Fund	Added
Nova Scotia Research and Development for Grain and Forage	Added
Nova Scotia Technology Development 2000	Added
Ontario Safety Net Research and Development Fund	Added
Regina Airport Authority	Added
Saint John Airport Inc.	Added
Saint John Airport Transition Team	Deleted
St. John's International Airport Authority	Added
St. John's Regional Airport Planning Group	Deleted

Corporations held under the terms of the *Bankruptcy and Insolvency Act*

Canadian Manoir	Added
Caoutech	Added
Exploration Boréale Inc.	Added
Goldenhill Cattle Company Ltd.	Added
Madison Partners Limited	Added
N. Brunswick Rasakti Inc.	Added
Omnitech Migration International Inc.	Added
O-Tooz Energie Group Inc.	Added
The Vivant Group Inc.	Added

MIXED ENTERPRISES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End Total Assets (A) Liabilities (L) Auditor	Federal Ownership
Minister of Finance				
Petro-Canada				
To enhance shareholder's value through development, production and distribution of hydrocarbons and other types of fuel and energy.	52nd Floor West Tower 150-6th Ave. SW Calgary AB T2P 3E3 (403) 296-8000	*Canada Business Corporations Act*, 1975	December 31 A = $8.34B L = $2.93B Arthur Andersen & Company	18.23%
Minister of Natural Resources				
NPM Nuclear Project Managers Canada Inc.				
Nuclear project and construction management. To transfer this activity to the private sector.	22^{e} étage 2020, rue Université Montréal QC H3A 2A5 (514) 288-1990	*Canada Business Corporations Act*, 1982	March 31 A = $28.6M L = $24.6M Price Waterhouse	17%

JOINT ENTERPRISES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End Total Assets (A) Liabilities (L) Auditor	Federal Ownership
Minister of Industry and Minister responsible for Canada Economic Development				
Société du parc industriel et portuaire Québec-Sud				
To promote the development of an industrial and port park in the city of Lauzon in order to provide a venue for major industrial projects. To administer this industrial and port park.	Bureau 101 229-A, rue Saint-Omer Lévis QC G6N 6N4 (418) 833-5925	Special act of the Quebec Government (1974)	March 31 A = $2.5M L = $0 Auditor General of Quebec	40%
Minister of Industry and of Western Economic Diversification				
North Portage Development Corporation & The Forks Renewal Corporation				
To foster the social and economic redevelopment of the North Portage area in Winnipeg.	201- One Forks Market Road Winnipeg MB R3C 4L9 (204) 943-7752	*Manitoba Corporations Act*, 1983	March 31 A = $128.1M L = $33.5M Deloitte & Touche	33.3%
Minister of Natural Resources				
Lower Churchill Development Corporation Limited				
To establish a basis for the development of all or part of the hydroelectric potential of the Lower Churchill basin and the line transmission of this energy to markets.	P.O. Box 12700 St. John's NF A1B 3T5 (709) 737-1400	*Newfoundland Companies Act*, 1978	December 31 A = $30M L = $0 Ernst & Young	49%

INTERNATIONAL ORGANIZATIONS

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federal Ownership or Board Appointees[1]
Minister of the Environment				
International Lake Memphremagog Levels Board				
A forum for dispute resolution regarding the regulation of the levels of Lake Memphremagog in accordance with international obligations and federal and provincial legislation.	a/s EC, Région du Québec Bureau 300 100, boul. Alexis-Nihon St-Laurent QC H4M 2N8 (514) 283-1628	The Board was created pursuant to an agreement between the governments of Canada and the U.S.A.	n/app	1/2
International Lake of the Woods Control Board				
Lake of the Woods is an international boundary water. The Lake of the Woods Control Board is responsible for the regulation of levels in the Lake of the Woods and Lac Seul and flows in the Winnipeg and English Rivers downstream of these lakes to their junction, in accordance with international obligations and federal and provincial legislation.	a/s EC, Service de conservation de l'environnement 4^{e} étage 351, boul. Saint-Joseph Hull QC K1A 0H3 (819) 997-2529	The Board was created pursuant to Section 2 of the *Lake of the Woods Control Board Act* and is further mandated by the Canada-U.S. Boundary Waters Treaty (Convention and Protocol, 1925).	n/app	1/2

n/app = not applicable

[1] For share-capital corporations, a percentage value represents the degree of federal ownership. For entities without share capital, a fraction shows the number of federally appointed members of the entity's board or governing body over the total number of board members.

INTERNATIONAL ORGANIZATIONS

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federal Ownership or Board Appointees
Minister of the Environment (continued)				
International Niagara Committee				
To determine the amount of water available for the purposes of the Treaty and to record the amounts of water used for power diversions.	c/o EC, Ontario Region P.O. Box 5050 867 Lakeshore Road Burlington ON L7R 4A6 (905) 336-4713	The Niagara Diversion Treaty, 1950 as administered by the Department of Foreign Affairs and International Trade and the U.S. State Department	n/app	1/2
International Porcupine Caribou Board				
The Board makes recommendations and provides advice on those aspects of the conservation of the Porcupine Caribou Herd and its habitat that require international co-ordination.	c/o EC Pacific and Yukon Region Canadian Wildlife Service 91782 Alaska Hwy. Whitehorse YT Y1A 5B7 (867) 393-6700	Agreement signed by the U.S.A. and Canada on the Conservation of the Porcupine Caribou Herd, 1987	n/app	4/8
North American Commission for Environmental Cooperation – Joint Public Advisory Committee				
The committee provides advice to the Council of the North American Commission for Environmental Cooperation on matters within the scope of the North American Agreement on Environmental Cooperation, a "side agreement" to the North American Free Trade Agreement.	Pièce 200 393, rue Saint-Jacques O Montréal QC H2Y 1N9 (514) 350-4300	The Committee was created pursuant to the North American Agreement on Environmental Cooperation	n/app	5/15

INTERNATIONAL ORGANIZATIONS

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federal Ownership or Board Appointees
Minister of Finance				
European Bank for Reconstruction and Development				
To develop a vibrant private sector and to help foster the transition from centrally planned economies to market economies in the new Europe.	One Exchange Square London, England EC2A 2EH 44-171-338-6000	*European Bank for Reconstruction and Development Agreement Act*, 1991	Arthur Andersen	3.66%
International Bank for Reconstruction and Development				
To assist in the reconstruction and development of territories of member countries.	1818 H Street NW Washington, DC 20433 U.S.A. (202) 623-1000	*Bretton Woods and Related Agreements Act*, 1945	Price Waterhouse	2.96%
International Development Association				
To promote economic development, increase productivity and thus raise standards of living in the less developed areas of the world.	1818 H Street NW Washington, DC 20433 U.S.A. (202) 477-1234	Articles of Agreement, 1960, *International Development Association Act*, 1960	Price Waterhouse	3.01%
International Finance Corporation				
To further economic development by encouraging the growth of productive enterprises in member countries, supplementing the activities of the International Bank for Reconstruction and Development.	2121 Pennsylvania Avenue Washington, DC 20433 U.S.A. (202) 473-1234	Articles of Agreement; Vote 731, *Appropriation Act No. 6*, 1956	Price Waterhouse	3.65%

INTERNATIONAL ORGANIZATIONS

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federal Ownership or Board Appointees
Minister of Finance (continued)				
International Monetary Fund				
To promote economic welfare by encouraging the expansion of trade, the maintenance of orderly exchange arrangements, and the reduction of balance of payments.	700 19th St. NW Washington, DC 20431 U.S.A. (202) 623-7430	Agreement signed by member countries, 1945	External Audit Committee	2.97%
Multilateral Investment Guarantee Agency				
To encourage the flow of investments for productive purposes among member countries, thus supplementing the activities of the International Bank for Reconstruction and Development, the International Finance Corporation and other international development finance institutions.	1818 H Street NW Washington, DC 20433 U.S.A. (202) 477-6167	*Bretton Woods and Related Agreements Act, 1988*	Price Waterhouse	2.97%
Minister of Foreign Affairs				
African Development Bank				
To contribute to the economic development and social advancement of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives in Africa.	01, Box 1387 Abidjan 01 Ivory Coast Africa 011-225-20-44-44	Agreement signed by member countries, 1963 and the *International Development (Financial Institutions) Continuing Assistance Act*	Deloitte & Touche; and Akintola Williams and Hussan Inc.	3.16%

INTERNATIONAL ORGANIZATIONS

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federal Ownership or Board Appointees
Minister of Foreign Affairs (continued)				
Asian Development Bank				
To promote the economic and social advancement of developing country members. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives in Asia.	P.O. Box 789 1099 Manila Philippines 011-632-711-3851	Agreement signed by member countries, 1965 and the *International Development (Financial Institutions) Continuing Assistance Act*	Deloitte & Touche	5.38%
Caribbean Development Bank				
To contribute to the harmonious economic growth and development of the member countries, and integration among them, having special and urgent regard to the needs of the less developed members of the region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	P.O. Box 408 Wilday, St. Michael Bridgetown Barbados 1-8-246-429-3550	Agreement signed by member countries, 1969 and the *International Development (Financial Institutions) Continuing Assistance Act*	Price Waterhouse	8.97%
Inter-American Development Bank				
To contribute to the acceleration of the process of economic/social development of the regional developing member countries, individually or collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	1300 New York Avenue NW Washington, DC 20577 U.S.A. (202) 623-1000	Agreement signed by member countries, 1959 and the *International Development (Financial Institutions) Continuing Assistance Act*	Price Waterhouse	4.15%

INTERNATIONAL ORGANIZATIONS

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federal Ownership or Board Appointees
Minister of Foreign Affairs (continued)				
International Boundary Commission				
To maintain the demarcation and cartographic representation of the land and water boundary between Canada and the United States, and to regulate all construction within three metres of the boundary line.	Room 571 615 Booth Street Ottawa ON K1A 0E9 (613) 995-4341	*Treaty of Washington, 1908; International Boundary Commission Act*, 1960	n/app	1/2
Minister of Veterans Affairs				
Commonwealth War Graves Commission				
To mark and maintain graves and memorials and keep records of the members of the Forces of the Commonwealth who died in the two World Wars.	2 Marlow Road Maidenhead Berkshire, U.K. SL6 7DX (0628) 34221	Royal Charter, 1917	Coopers Lybrand & Deloitte	1/10

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members[2]
Minister of Agriculture and Agri-Food				
Agriculture Institute of Management in Saskatchewan, Inc.				
To co-operate with the federal and provincial governments in the implementation of the Canadian Farm Business Management Program in Saskatchewan.	Room 125 3085 Albert Street Regina SK S4S 0B1 (306) 787-5964	Section 4(a) of the *Department of Agriculture and Agri-Food Act*	Mintz & Wallace	4/12
Agri-Food Innovation Fund				
To support the development of emerging primary and value-added agriculture sectors by providing assistance for research, development and infrastructure needs, and to facilitate transition to a more market driven economy for the Saskatchewan agri-food industry.	Room 329 3085 Albert St. Regina SK S4S 0B1 (306) 780-8262	*The Crown Corporations Act, 1993* (Sask.) *and The Agri-Food Innovation Act*, 1995 (Sask.)	Saskatchewan Provincial Auditor	6/12
B.C. Investment Agriculture Foundation (BCIAF)				
To manage the decision making and delivery of British Columbia's allocation of adaptation and safety net funding; to set priorities and fund projects that foster long-term growth, employment and competitiveness of B.C.'s agriculture and food industry, associated industries and rural areas.	P.O. Box 8248 Victoria BC V8W 3R9 (250) 356-1830	*Society Act* of the province of British Columbia	To be appointed	1/13

[2] This fraction shows the number of federally appointed members of the entity's board of governing body over the total number of board members.

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Agriculture and Agri-Food (continued)				
Canada-Alberta Beef Industry Development Fund				
To enhance research and industry development activities with the objective of promoting the competitiveness of the beef industry in Alberta.	Alberta Cattle Commission 215-6715 - 8th Street NE Calgary AB T2E 7H7 (403) 275-8558	Canada-Alberta Beef Industry Development Companion Agreement, *Farm Income Protection Act*	BDO Dunwoody (Calgary)	1/7
Canada-Alberta Hog Industry Development Fund				
To enhance research and industry development activities with the objective of promoting the competitiveness of the hog industry in Alberta.	Alberta Pork Producers Development Corporation 10319 Princess Elizabeth Ave. Edmonton AB T5G 0Y5 (403) 474-8288	Canada-Alberta Hog Industry Development Companion Agreement and Amending Agreement, *Farm Income Protection Act*	KPMG	1/7
Canada-Alberta Sugar Beet Industry Development Fund				
To enhance research and industry development activities with the objective of promoting the competitiveness of the sugar beet industry in Alberta.	Alberta Sugar Beet Growers' Marketing Board 4900 - 50th Street Taber AB T1G 1T3 (403) 223-1110	Canada-Alberta Sugar Beet Industry Development Companion Agreement, *Farm Income Protection Act*	Dawson, Berezan & Partners (Lethbridge)	1/7
Canada-Manitoba Agri-Food Research and Development Initiatives				
To initiate, encourage, promote, and conduct innovative research and development projects that contribute to the economic well-being of Canada and Manitoba.	Administrator Manitoba Association of Agricultural Societies Box 72 Morris MB R0G 1K0 (204) 758-3056	Canada-Manitoba Agri-Food Research and Development Initiatives Companion Agreement, *Farm Income Protection Act*	To be appointed	6/13

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Agriculture and Agri-Food (continued)				
Canada-Newfoundland Agri-Food Innovation Fund				
To provide financial assistance to Newfoundland farmers for the development of primary and value-added agricultural sectors in Newfoundland and Labrador.	Department of Forest Resources and Agrifoods P.O. Box 8700 St. John's NF A1B 4J6 (709) 729-5090	Canada-Newfoundland and Labrador Agri-Food Innovation Agreement, *Farm Income Protection Act*	Newfoundland Provincial Auditor	1/4
Canadian Farm Business Management Council (CFBMC)				
To monitor and provide guidance on the implementation of the Canadian Farm Business Management Program; promote and encourage the application of sound farm business management principles and practices; and encourage, co-ordinate and fund projects undertaken on a national, regional, multi-provincial or provincial basis.	Suite 1110 75 Albert Street Ottawa ON K1P 5E7 (613) 237-9060	Section 4(a) of the *Department of Agriculture and Agri-Food Act*	Deloitte & Touche	2/22
Canadian International Grains Institute				
To promote, on a non-profit basis for the general advantage of Canada, the development, maintenance and enlargement of Canadian and international markets for Canadian grains and oilseeds and the products thereof.	Suite 1000 303 Main Street Winnipeg MB R3C 3G7 (204) 983-3289	*Canada Corporations Act*, 1972	Deloitte & Touche	5/5

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Agriculture and Agri-Food (continued)				
Canadian Livestock Records Corporation				
To perform services for and on behalf of members of the fifty Breed Associations. To ensure the maintenance of the Breed Associations' Herd Books, and to maintain the General Stud and Herd Book.	2417 Holly Lane Ottawa ON K1V 0M7 (613) 731-7110	*Animal Pedigree Act*, 1988	Ernst & Young	1/6
Centre de développement du porc du Québec Inc.				
To promote the development and use of new technologies that could improve quality, efficiency and profitability of the Quebec hog industry, with respect to environment.	Bureau 340 2795, boul. Laurier Sainte-Foy QC G1V 4M7 (418) 650-2440	3^{e} partie de la *Loi sur les compagnies du Québec*	Samson Bélair	1/19
Conseil de recherches en pêche et agroalimentaire du Québec (CORPAQ)				
To advise the Minister of Agriculture, Fisheries and Food Quebec on research and development activities to encourage dialogue in order to help the bio-food sector further the goal of sustainable development.	Direction de la recherche MAPAQ 200, chemin St. Foy Quebec QC G1R 4X6 (418) 646-5774	Gouvernement du Québec; *Loi sur le vérificateur général*	Auditor General of Quebec	1/15
Conseil pour le développement de l'agriculture du Québec (CDAQ)				
To administer the funds allocated to Québec by the federal government to the agriculture sector under the Canadian Adaptation and Rural Development (CARD) Fund.	555, boul. Roland-Therrien Longueuil QC J4H 3Y9 (514) 679-0530	3^{e} partie de la *Loi sur les compagnies du Québec*	Groupe Mallette Maheu	1/11

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Agriculture and Agri-Food (continued)				
Fonds québécois d'adaptation des entreprises agroalimentaires				
To administer the funds allocated to Québec by the federal government to promote the agri-food industry's adaptation to the new situation resulting from market deregulation and the abolition of several traditional measures for obtaining financial assistance.	Suite 200 9001, boul. de l'Acadie Montréal QC H4N 3H7 (514) 858-2000	3e partie de la *Loi sur les compagnies du Québec*	Samson, Bélair, Deloitte & Touche	2/13
GEAGRI				
To contribute to the development of agriculture management and economy through the gathering of partners for the realization of activities, tools and services suited for customers' needs.	9e étage 200 chemin St. Foy Quebec QC G1R 4X6 (418) 646-5772	Gouvernement du Québec : *Loi sur l'inspecteur général des institutions financières*	Groupe Mallette Maheu	1/16
Manitoba Crop Diversification Centre (MCDC)				
An industry-led initiative with a mandate to identify, evaluate, demonstrate and facilitate the use of new crops, technologies and value added opportunities in a sustainable agricultural system. MCDC has three owned sites and two partnership sites representing a range of soil and climates. Much of the centre's work is carried out in co-operation with outside agencies, groups and individuals. The centre provides a variety of assistance for research and demonstration activities, including technical support and use of its facilities and land.	Box 309 Carberry MB R0K 0H0 (204) 834-6000	*Prairie Farm Rehabilitation Act*	Myers, Norris & Penny Auditor General of Canada	3/9

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Agriculture and Agri-Food (continued)				
New Brunswick Biotechnology and Technological Innovation Centre of Excellence Inc. (BioAtlantech)				
To strengthen New Brunswick's rural and resource-based economy through the development, application and commercialization of biotechnology and technological innovations.	NB Dept. of Agriculture and Rural Development P.O. Box 636 Fredericton NB E3B 5A6 (506) 444-2444	New Brunswick Biotechnology Centre of Excellence Endowment Fund Agreement, *Department of Agriculture and Agri-Food Act.* Provincially incorporated under the laws of the Province of New Brunswick.	Teed, Saunders, Doyle Co. (Fredericton)	1/19
Nova Scotia Apple Industry Development Fund				
To undertake activities to enhance the ability of the Nova Scotia apple industry to compete in the domestic and international marketplace.	Nova Scotia Department of Agriculture & Marketing MacRae Library 137 College Rd P.O. Box 550 Truro NS B2N 5E3 (902) 893-6506	Canada-Nova Scotia Agreement, National Transition Scheme for Apples in Nova Scotia, Schedule B: Apple Industry Fund; *Farm Income Protection Act*	To be appointed	2/11
Nova Scotia Research and Development for Grain and Forage				
To provide financial assistance to Nova Scotia farmers for long-term industry-supported grain and forage initiatives in Nova Scotia.	Nova Scotia Department of Agriculture & Marketing MacRae Library 137 College Rd P.O. Box 550 Truro NS B2N 5E3 (902) 893-6506	Canada-Nova Scotia Research and Development Program for Grain and Forage Agreement, *Farm Income Protection Act*	To be appointed	1/5

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Agriculture and Agri-Food (continued)				
Nova Scotia Technology Development 2000				
To provide financial assistance to Nova Scotia farmers for long-term industry-supported agricultural research in Nova Scotia.	Nova Scotia Department of Agriculture & Marketing MacRae Library 137 College Rd P.O. Box 550 Truro NS B2N 5E3 (902) 893-6506	Canada-Nova Scotia Research Technology 2000 Development Agreement, *Farm Income Protection Act*	To be appointed	1/3
Ontario Agriculture Training Institute (OATI)				
To co-operate with the federal and provincial governments in the implementation of the Canadian Farm Business Management Program in Ontario.	Suite 405 491 Eglinton Avenue W. Toronto ON M5N 1A8 (416) 485-3677	Section 4(a) of the *Department of Agriculture and Agri-Food Act*	Deloitte & Touche	1/17
Ontario Safety Net Research and Development Fund				
To improve the long-term competitive position and increase the diversity of the Ontario agriculture and food sector. The fund is administered by the Ontario Agricultural Adaptation Council (OAAC).	c/o Ontario Fruit and Vegetable Growers' Association Unit 103 355 Elmira Rd, Guelph ON N1K 1S5 (519) 763-6160	*Agricultural and Horticultural Organizations Act, Province of Ontario R.S.O., 1990, c.A. 9.* Provincially incorporated in 1995.	Hillson and Co. (Guelph)	1/12
POS Pilot Plant Corporation				
To be a practical world-class research and development facility for Canadian and international industry so that secondary and tertiary industry can be started and developed in Canada.	118 Veterinary Rd. Saskatoon SK S7N 2R4 (306) 975-7066	*Canada Corporations Act,* 1973	KPMG Peat Marwick Thorne	2/18

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Agriculture and Agri-Food (continued)				
Western Grains Research Foundation				
To initiate, encourage, support and conduct research into grain production and into economic and market development of grain products.	118 Veterinary Rd. Saskatoon SK S7N 2R4 (306) 975-0060	*Canada Corporations Act,* 1981	Coopers & Lybrand	1/18
Minister of Canadian Heritage				
1999 Corner Brook Canada Winter Games Host Society				
To plan, organize and stage the 1999 Canada Winter Games.	P.O. Box 1999 Corner Brook NF A2H 6T2 (709) 637-1999	*The Corporations Act* (Newfoundland) 1995	Doane Raymond	1/14
2001 London Alliance Canada Summer Games Host Society Inc.				
To plan, organize, manage, promote, finance, conduct, operate and supervise the 2001 Canada Games on behalf of Canada, the Province of Ontario, The London Alliance and the Canada Games Council and other complementary purposes.	Suite 1600 275 Dundas Street London ON N6B 3L1 (519) 640-8030	*The Corporations Act* (Ontario) 1997	To be appointed	1/10
Association for the Export of Canadian Books				
To promote the export of Canadian books. To administer the export budget for the Department of Canadian Heritage's Book Publishing Industry Development Program.	Suite 1101 1 Nicholas St. Ottawa ON K1N 7B7 (613) 562-2324	*Canada Corporations Act,* 1972	Robert B. Shortley	2/12

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Canadian Heritage (continued)				
Calgary Olympic Development Association				
To foster the development of Canadian athletics, administer the Olympic Endowment Funds, and operate and maintain Canada Olympic Park.	88 Canada Olympic Road SW Calgary AB T2M 4N3 (403) 247-5416	*Society Act of Alberta,* 1979	Price Waterhouse	1/20
Canada Games Council				
To provide a major national multi-sport event for the best young athletes in all provinces and territories.	1600 James Naismith Drive Gloucester ON K1B 5N4 (613) 748-5799	*Canada Corporations Act,* 1991	Deloitte & Touche	3/14
Canada Television and Cable Production Fund				
To increase the broadcast presence of high quality Canadian programs and to enhance the Canadian broadcasting and production sector.	Suite 802 45 Charles St. E. Toronto ON M4Y 1S2 (416) 975-4941	*Canada Corporations Act,* Part II, 1996	KPMG	3/16
Coaching Association of Canada				
To improve the formal training of coaches through the National Coaching Certification Program and related programs, and to consolidate a profession of coaching that will ensure that job opportunities are matched by qualified candidates.	1600 James Naismith Drive Gloucester ON K1B 5N4 (613) 748-5624	*Canada Corporations Act,* 1971	Ouseley Hanvey Clipsham Deep	4/12

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Canadian Heritage (continued)				
Commonwealth Centre for Sport Development				
To establish and operate a multi-sport development centre, dedicated to developing standards of high performance and competitive excellence in athletes and coaches, within domestic and international amateur sports.	4636 Elk Drive Victoria BC V8Z 5M1 (250) 744-3538	*Society Act of B.C.*, 1988	Norgaard, Neale, Campden	1/13
Le Consortium de télévision Québec Canada Inc. (TV5)				
Promote the French language throughout the world through a specialty television service.	Bureau 101 1755, Boul. René-Lévesque E Montreal QC H2K 4P6 (514) 522-5322	*Canada Corporations Act*, Part II, 1991	Samson Bélair Deloitte & Touche	3/20
National Sport Centre — Calgary				
To support high-performance athletes to achieve podium performances at international competitions through a holistic development process.	c/o Faculty of Physical Education University of Calgary 2500 University Drive NW Calgary AB T2N 1N4 (403) 220-8196	*Society Act of Alberta*, 1994	Price Waterhouse	1/11
Pan American Games Society (WPG 1999) Inc.				
To plan, organize and stage the 1999 Pan American Games in Winnipeg.	500 Shaftsbury Blvd. Winnipeg MB R3P 0M1 (204) 985-1999	*The Corporations Act* (Manitoba) 1994	Price Waterhouse	3/15
Sport Information Resource Centre				
To maintain a non-profit national sport information resource centre to serve the educational needs of those involved in the development of sport and fitness in Canada.	1600 James Naismith Drive Gloucester ON K1B 5N4 (613) 748-5658	*Canada Corporations Act*, 1987	Guindon Charron	1/11

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of the Environment				
Wildlife Habitat Canada				
To promote the conservation, restoration and enhancement of wildlife habitat in Canada in order to retain the diversity, distribution and abundance of wildlife.	Suite 200 7 Hinton Avenue Ottawa ON K1Y 4P1 (613) 722-2090	*Canada Corporations Act*, 1984	KPMG Peat Marwick Thorne	6/10
Minister of Fisheries and Oceans				
International Fisheries Commissions Pension Society				
To arrange for and administer the provision of pensions and insurance for Canadian employees of any international fisheries commission whose seat or headquarters is established and maintained by Canada or the U.S., or both.	c/o Fisheries and Oceans 200 Kent Street Ottawa ON K1A 0E6 (613) 993-1860	*Canada Corporations Act*, 1957	Director General Corporate Review, Evaluation and Audit Directorate, Fisheries and Oceans	4/8
Minister of Foreign Affairs				
Asia-Pacific Foundation of Canada				
To develop closer ties between the peoples and institutions of Canada and the Asia-Pacific region.	Suite 666 999 Canada Place Vancouver BC V6C 3E1 (604) 684-5986	*Asia-Pacific Foundation of Canada Act*, 1984	Arthur Andersen & Company	10/17
International Centre for Human Rights and Democratic Development				
To promote and support co-operation between Canada and other countries for the purpose of developing and strengthening human rights institutions.	1st Floor 63, rue de Brésoles Montreal QC H2Y 1V7 (514) 283-6073	*International Centre for Human Rights and Democratic Development Act*, 1988	Auditor General of Canada	13/13

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Foreign Affairs (continued)				
Roosevelt Campobello International Park Commission				
To administer as a memorial the Roosevelt Campobello International Park.	P.O. Box 9, Welshpool Campobello Is. NB E0G 3H0 (506) 752-2992	*The Roosevelt Campobello International Park Commission Act*, 1964	Foster, Carpenter, Black & Co.	3/6
Minister of Health				
Canadian Centre on Substance Abuse				
To promote increased awareness, on the part of Canadians, of matters relating to alcohol and drug abuse and their increased participation in the reduction of harm associated with such abuse, and to promote the use of relevant programs.	Suite 300 75 Albert Street, Ottawa ON K1P 5E7 (613) 235-4048	*Canadian Centre on Substance Abuse Act*, 1988	McIntyre & McLarty	6/9
PARTICIPaction				
To inform Canadians about the positive benefits of physical fitness and to motivate them to adopt healthy, physically active lifestyles. To promote fitness through participation in sport and physical recreation.	Suite 220 40 Dundas St. W. Toronto ON M5G 2C2 (416) 977-7467	*Canada Corporations Act*, 1971	KPMG Peat Marwick Thorne	1/20
Terry Fox Humanitarian Award Inc.				
To encourage Canadian youth to seek high ideals as represented by Terry Fox by granting commemorative scholarships for the pursuit of higher education; to establish, maintain and manage an endowment fund.	C/o Simon Fraser University Burnaby BC V5A 1S6 (604) 291-3057	*Canada Corporations Act*, 1980	Ouseley Hanvey Clipsham Deep	3/12

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Indian Affairs and Northern Development				
Northern Native Fishing Corporation				
To preserve a fleet of fishing vessels and related licences for the long-term benefit of native fishers, and to foster their development as independent business operators.	P.O. Box 876 4-214 Third Ave. W. Prince Rupert BC V8J 3Y1 (250) 627-8436	*British Columbia Companies Act,* 1982	Carlyle Shepherd & Co.	1/7
Minister of Industry				
Canada Foundation for Innovation				
To strengthen Canadian capability for research by committing funds to the development of research infrastructure in Canada.	350 Albert Street P.O. Box 77 Ottawa ON K1R 1A4 (613) 947-6496	*Budget Implementation Act,* 1997	To be appointed	7/15
Minister of Industry and Minister Responsible for Canada Economic Development				
Association québécoise des bio-industries				
To provide services to businesses in the biotechnology industry (marketing, technology transfer and lobbying).	Bureau 100 155, boul. Chomedey Chomedey QC H7B 3Z1	*Loi sur les compagnies du Québec,* 1995	Campeau Vachon	1/13
Association québécoise des fabricants de l'industrie médicale				
To provide services to businesses in the health care products sector (marketing, technology transfer and lobbying).	8475, av. Christophe-Colomb C.P. 175 Succursale Youville Montréal QC H2P 2V4	*Loi sur les compagnies du Québec,* 1987	Samson Bélair Deloitte & Touche	2/15
Centre d'entreprises et d'innovation de Montréal				
To provide services to businesses starting up, particularly in the areas of technology and fashion.	33, rue Prince Montréal QC H3C 2M7	*Loi sur les compagnies du Québec,* 1995	Raymond, Chabot, Martin, Paré	1/18

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Industry and Minister Responsible for Canada Economic Development (continued)				
Centre de promotion du logiciel québécois				
To provide support to businesses for training on electronic data interchange.	Bureau 600 407, boul. St-Laurent Montréal QC H2Y 2Y5	*Loi sur les compagnies du Québec,* 1990	Raymond, Chabot, Martin, Paré	1/17
Fondation du maire de Montréal pour la Jeunesse				
To assist young disadvantaged Montrealers who are contributing to Montreal's economic development by starting their own businesses.	Bureau 4.106 275, rue Notre-Dame E Montréal QC H2Y 1C6 (514) 872-8401	*Loi sur les compagnies du Québec,* 1995	Auditor of the City of Montreal	1/17
Fonds de développement-emploi Montréal				
To promote the economic development of the most disadvantaged areas of Montreal by providing capital funding to small local businesses through a capital investment fund.	Bureau 100 5703, rue Sherbrooke E Montréal QC H1N 3M1	*Loi sur les compagnies du Québec,* 1988	Mallette Maheu	1/11
Institut de design Montréal				
To promote design as an economic value and to increase the exposure of designers on the local and international scenes.	Niveau 3 390, rue St-Paul E Montréal QC H2Y 1H2	*Loi sur les compagnies du Québec,* 1989	Raymond, Chabot, Martin, Paré	1/18
Institut EDI du Québec				
To assist software designers in marketing their products and suppliers in identifying software products in Quebec.	Centre de commerce mondial Bureau CT-228 Niveau Mezzanine 393, St-Jacques O Montréal QC H2Y 1N9	*Loi sur les compagnies du Québec,* 1990	Samson Bélair Deloitte & Touche	1/15

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Industry and Minister Responsible for Canada Economic Development (continued)				
Montréal International				
To promote the Greater Montreal area at an international level.	Bureau 3200 380, rue St-Antoine O Montréal QC H2Y 3X7	*Loi sur les compagnies du Québec,* 1988	Raymond, Chabot, Martin, Paré	1/22
Plastiservices Inc.				
To provide services to businesses in the plastics industry in order to develop this industry in Montreal East.	Suite 201 7777 Louis-H. Lafontaine Anjou QC H1K 4E4 (514) 355-2266	*Loi sur les compagnies du Québec,* 1994	Geoffroy Montcalm Lacasse	1/12
Minister of Natural Resources				
Canada-Newfoundland Offshore Petroleum Board				
To administer the relevant provisions of the *Canada-Newfoundland Atlantic Accord Implementation Acts* as enacted by the Parliament of Canada and the Legislature of Newfoundland and Labrador. The Board is funded by equal contributions from both the federal and provincial governments.	TD Place 5th floor 140 Water Street St. John's NF A1C 6H6 (709) 778-1400	The *Canada-Newfoundland Atlantic Accord Implementation Acts,* 1987	Deloitte & Touche	3/8

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Natural Resources (continued)				
Canada-Nova Scotia Offshore Petroleum Board				
To administer the relevant provisions of the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Acts* as enacted by the Parliament of Canada and the Legislature of Nova Scotia. The Board is funded by both the federal and provincial governments with equal contributions.	TD Centre 6th Floor 1791 Barrington Street Halifax NS B3N 3K9 (902) 422-5588	The *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, 1988	Deloitte & Touche	2/5
Forest Engineering Research Institute of Canada				
To conduct research and development aimed at improving the efficiency of operations relating to the harvesting and transportation of wood and to improving the equipment used for silvicultural and private woodlots forestry.	580, boul. Saint-Jean Pointe-Claire QC H3R 3J9 (514) 694-1140	*Canada Corporations Act*, 1976	Samson Bélair Deloitte & Touche	3/28
Forintek Canada Corporation				
To be the leading force in the technological advancement of the Canadian wood products industry, through creation and implementation of innovative concepts, processes, products, and education programs.	2665 East Mall University of British Columbia Vancouver BC V6T 1W5 (604) 224-3221	*Canada Corporations Act*, 1979	Coopers & Lybrand	2/26
Maritime Forestry Complex Corporation				
To establish a Maritime Provinces Regional Forestry Complex.	Hugh John Flemming Forestry Centre RR #10 Fredericton NB E3B 6H6 (506) 453-3801	*Maritime Forestry Complex Corporations Act*, New Brunswick, 1980	Deloitte & Touche	3/10

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Natural Resources (continued)				
National Community Tree Foundation				
To promote public awareness and education regarding Canada's forests, to provide leadership and community action in building the conservation ethic in Canada and in co-ordinating actions and soliciting co-operation and funding, in support of tree planting and forest conservation.	Suite 1550 220 Laurier Avenue W. Ottawa ON K1P 5Z9 (613) 567-5545	*Canada Corporations Act*, 1991	KPMG Peat Marwick Thorne	1/16
Pulp and Paper Research Institute of Canada				
To enhance the technical competitiveness of its member companies through activities that support and supplement their own research and technical efforts.	570, boul. Saint-Jean Pointe-Claire QC H9R 3J9 (514) 630-4100	*Canada Companies Act*, 1950	Samson Bélair Deloitte & Touche	2/22
Minister of Transport				
Blue Water Bridge Authority				
To acquire, hold, operate, maintain, repair and add to the Canadian portion of the Blue Water Bridge between Point Edward, Ontario and Port Huron, Michigan.	Bridge Street Point Edward ON N7V 4J5 (519) 336-2720	*Blue Water Bridge Authority Act*, 1964	Deloitte & Touche	4/4
Buffalo and Fort Erie Public Bridge Authority				
To construct, maintain and operate the Peace Bridge between Buffalo, New York and Fort Erie, Ontario.	The Peace Bridge Peace Bridge Plaza Buffalo N.Y. 14213 U.S.A. (905) 871-1608	*An Act respecting the Buffalo and Fort Erie Public Bridge Company*, 1934	Ernst & Young	5/10

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Transport (continued)				
Saint John Harbour Bridge Authority To construct a bridge across the Harbour of Saint John, to enter into agreements respecting the financing, construction and financial operation of the bridge, and to collect tolls and other charges for the operation and maintenance of the bridge.	29 King Street P.O. Box 3728, Station B West Saint John NB E2M 5C1 (506) 635-1320	*An Act to establish a Harbour Bridge Authority in the City of Saint John,* 1962	Deloitte & Touche	1/7
CANADIAN AIRPORT AUTHORITIES: The mandate of a Canadian Airport Authority is to manage, operate and develop the airport(s) for which it is responsible in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all air carriers; to undertake and promote the development of the airport lands for which it is responsible for uses compatible with air transportation activities; and to expand transportation facilities and generate economic activity in ways that are compatible with air transportation activities.				
Calgary Airport Authority	Calgary International Airport 2000 Airport Road NE Calgary AB T2E 6W5	*Regional Airports Authority Act*	Price Waterhouse	2/18
Charlottetown Airport Authority Inc.	2nd Floor 75 Fitzroy Street P.O. Box 1881 Charlottetown PEI C1A 7N5	*Canada Corporations Act,* Part II	To be appointed	2/10
Gander International Airport Authority	P.O. Box 392 Gander NF A1V 1W8	*Canada Corporations Act,* Part II	To be appointed	3/9
Greater Fredericton Airports Authority Inc.	c/o Fredericton Chamber of Commerce Box 275 Fredericton NB E3B 4Y9	*Canada Corporations Act,* Part II	To be appointed	3/11

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Transport (continued)				
Greater London International Airport Authority	Xenon Capital Corporation Suite 400, 248 Pall Mall St. London ON N6A 5P6	*Canada Corporations Act*, Part II	To be appointed	2/11
Greater Moncton Airport Authority, The	1575 Champlain Street Airport Box 12, R.R. 5 Moncton NB E1C 1W1	*Canada Corporations Act*, Part II	To be appointed	3/14
Greater Toronto Airports Authority	P.O. Box 60311 Toronto AMF ON L5P 1B2	*Canada Corporations Act*, Part II	Deloitte & Touche	2/15
Halifax International Airport	Unit 103, Suite 264 287 Lacewood Drive Halifax NS B3M 3Y7	*Canada Corporations Act*, Part II	To be appointed	2/13
Ottawa Macdonald-Cartier International Airport Authority	50 Airport Road Gloucester ON K1P 9B4	*Canada Corporations Act*, Part II	Deloitte & Touche	2/15
Regina Airport Authority	c/o Regina Economic Development Authority Suite 140 1870 Albert Street Regina SK S4P 4B7	*Canada Corporations Act*, Part II	To be appointed	3/15
Saint John Airport Inc.	c/o New Brunswick Telephone Company Limited One Brunswick Square P.O. Box 1430 Saint John NB E2L 4K2	Incorporated provincially	To be appointed	3/12

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Transport (continued)				
Saskatoon Airport Authority	Suite 3 2625 Airport Drive Saskatoon SK S7K 0B3	*Canada Corporations Act*, Part II	To be appointed	3/15
Société aéroportuaire de Québec	Aéroport internationale Jean Lesage Pièce 600, 6e av. Ste-Foy QC G2E 5W1	*Canada Corporations Act*, Part II	To be appointed	2/15
St. John's International Airport Authority	Unit 301 38 Pearson Street St. John's NF A1V 1W8	*Canada Corporations Act*, Part II	To be appointed	3/12
Thunder Bay International Airports Authority Inc.	340 - 100 Princess St. Thunder Bay ON P7B 4W6	*Canada Corporations Act*, Part II	Ernst & Young	2/9
Victoria Airport Authority	Box 201 1640 Electra Blvd. Sydney BC V8L 5V4	*Canada Corporations Act*, Part II	KPMG	2/14
Winnipeg Airports Authority Inc.	Room 249 Admin. Bldg. 2000 Wellington Ave. Winnipeg MB R3H 1C1	*Canada Corporations Act*, Part II	KPMG	2/16

HARBOUR COMMISSIONS:

To manage and control the harbour and the works and property therein under its jurisdiction. To develop the port and act as a catalyst in the utilization of port facilities in furthering trade nationally and internationally.

Fraser River Harbour Commission	Suite 500 713 Columbia Street New Westminster BC V3M 1B2 (604) 524-6655	*Harbour Commissions Act*, 1964	Doane Raymond	3/5

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Transport (continued)				
Hamilton Harbour Commission	605 James Street N. Hamilton ON L8L 1K1 (905) 525-4330	*Hamilton Harbour Commissioners Act*, 1957	Coopers & Lybrand	2/3
Nanaimo Harbour Commission	104 Front Street P.O. Box 131 Nanaimo BC V9R 5K4 (604) 753-4146	*Harbour Commissions Act*, 1964	Bestwick and Partners	3/5
North Fraser Harbour Commission	2020 Airport Road Richmond BC V7B 1C6 (604) 273-1866	*Harbour Commissions Act*, 1964	BDO Dunwoody	3/5
Oshawa Harbour Commission	1050 Farwell Street P.O. Box 492 Oshawa ON L1H 6N6 (905) 576-0400	*Harbour Commissions Act*, 1964	Deloitte & Touche	2/3
Port Alberni Harbour Commission	2750 Harbour Road P.O. Box 99 Port Alberni BC V9Y 7W6 (604) 723-5312	*Harbour Commissions Act*, 1964	Newman Hill Duncan & Lacoursière	2/3
Thunder Bay Harbour Commission	100 Main St. Thunder Bay ON P7B 6R9 (807) 345-6400	*Harbour Commissions Act*, 1964	KPMG Peat Marwick Thorne	2/3

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Minister of Transport (continued)				
Toronto Harbour Commission				
	60 Harbour Street Toronto ON M5J 1B7 (416) 863-2065	*Toronto Harbour Commissioners Act*, 1911	KPMG Peat Marwick Thorne	2/5
Windsor Harbour Commission				
	500 Riverside Drive W. Windsor ON N9A 5K6 (519) 258-5741	*Harbour Commissions Act*, 1964	Coopers & Lybrand	2/3
NAV CANADA				
To acquire, own, manage, operate and develop the Canadian civil air navigation system in a safe, secure, efficient and cost-effective manner.	77 Metcalfe Street Ottawa ON K1P 5L6	*Canada Corporations Act*, Part II, 1996	KPMG Peat Marwick Thorne	3/15
Minister of Veterans Affairs				
Army Benevolent Fund				
To relieve distress and promote the well being of Second World War veterans of the Canadian Army and their dependants through the provision of financial assistance.	245 Cooper Street Ottawa ON K2P 0G2 (613) 996-6150	*Army Benevolent Fund Act*, 1947	Auditor General of Canada	5/5
Last Post Fund				
To ensure the provision of a dignified funeral and burial to eligible war veterans.	Pièce 916 685, rue Cathcart Montréal QC H3B 1M7 (514) 866-2727	Federal Charter, 1921	Consulting and Audit Canada	1/15

OTHER ENTITIES

Responsible Minister Corporation's Name and Role	Head Office Information	Statutory Authority and Year Incorporated	Auditor	Federally Appointed Board Members
Prime Minister				
Nature Trust of British Columbia, The				
To purchase and preserve ecologically important parcels of land in B.C.	808-100 Park Royal S. West Vancouver BC V7T 1A2 (604) 925-1128	*Canada Corporations Act*, 1971	KPMG Peat Marwick Thorne	1/11
Vanier Institute of the Family, The				
To promote the spiritual and material well-being of Canadian families and to study their social, physical, mental, moral and financial environment and characteristics.	94 Centrepointe Drive Nepean ON K2G 6B1 (613) 228-8500	*Canada Business Corporations Act*, 1965	McCay, Duff	2/18

BANKRUPTCY AND INSOLVENCY ACT

The Superintendent of Bankruptcy has received shares in the following corporations from the trustee pursuant to the *Bankruptcy and Insolvency Act*:

1. Amertek Inc.
2. Autoskill International Inc.
3. Canadian Manoir
4. Caoutech
5. Carvern International Industries Ltd.
6. Colby Resources Corp.
7. Exploration Boréale Inc.
8. Goldenhill Cattle Company Ltd.
9. Kenloch Distillers Ltd.
10. Les laboratoires Quelab Inc.
11. Madison Partners Limited
12. N. Brunswick Rasakti Inc.
13. Omnitech Migration International Inc.
14. O-Tooz Energie Group Inc.
15. The Vivant Group Inc.

Consolidated List of Crown Corporations and Other Corporate Interests of Canada

CONSOLIDATED LIST OF CROWN CORPORATIONS AND OTHER CORPORATE INTERESTS OF CANADA[1]

Name of Corporation	Category	Ministerial Portfolio
176422 Canada Inc.	Subsidiary of Montreal Port Corporation	Transport
1999 Corner Brook Canada Winter Games Host Society	Other Entity	Canadian Heritage
2001 London Alliance Canada Summer Games Host Society Inc.	Other Entity	Canadian Heritage
2875039 Canada Limited	Subsidiary of Canada Post Corporation	Public Works and Government Services
2875047 Canada Limited	Subsidiary of Canada Post Corporation	Public Works and Government Services
3106900 Canada Inc.	Subsidiary of Canada Post Corporation	Public Works and Government Services
3148131 Canada Limited	Subsidiary of Canada Lands Company Limited	Public Works and Government Services
964102 Ontario Inc.	Subsidiary of PCL Courier Holdings Inc.	Public Works and Government Services
AECL Technologies B.V.	Subsidiary of Atomic Energy of Canada Limited	Natural Resources
AECL Technologies Inc.	Subsidiary of Atomic Energy of Canada Limited	Natural Resources
African Development Bank	International Organization	Foreign Affairs
Agriculture Institute of Management in Saskatchewan, Inc.	Other Entity	Agriculture and Agri-Food
Agri-Food Innovation Fund	Other Entity	Agriculture and Agri-Food
Army Benevolent Fund	Other Entity	Veterans Affairs
Asian Development Bank	International Organization	Foreign Affairs
Asia-Pacific Foundation of Canada	Other Entity	Foreign Affairs
Association for the Export of Canadian Books	Other Entity	Canadian Heritage
Association québécoise des bio-industries	Other Entity	Industry (Canada Economic Development)
Association québécoise des fabricants de l'industrie médicale	Other Entity	Industry (Canada Economic Development)
Atlantic Pilotage Authority	Parent Crown Corporation	Transport
Atomic Energy of Canada Limited	Parent Crown Corporation	Natural Resources
B.C. Investment Agriculture Foundation	Other Entity	Agriculture and Agri-Food
Bank of Canada	Parent Crown Corporation	Finance
Bell Bray Golf Developments Incorporated	Associate of Enterprise Cape Breton Corporation	Industry

[1] Excluding corporations under the terms of the *Bankruptcy and Insolvency Act*.

Name of Corporation	Category	Ministerial Portfolio
Blue Water Bridge Authority	Other Entity	Transport
Buffalo and Fort Erie Public Bridge Authority	Other Entity	Transport
Business Development Bank of Canada	Parent Crown Corporation	Industry
Cable North Microwave Limited	Associate of the Canadian Broadcasting Corporation	Canadian Heritage
Calgary Airport Authority	Other Entity	Transport
Calgary Olympic Development Association	Other Entity	Canadian Heritage
Canada-Alberta Beef Industry Development Fund	Other Entity	Agriculture and Agri-Food
Canada-Alberta Hog Industry Development Fund	Other Entity	Agriculture and Agri-Food
Canada-Alberta Sugar Beet Industry Development Fund	Other Entity	Agriculture and Agri-Food
Canada Council	Parent Crown Corporation	Canadian Heritage
Canada Deposit Insurance Corporation	Parent Crown Corporation	Finance
Canada Development Investment Corporation	Parent Crown Corporation	Finance
Canada Eldor Inc.	Subsidiary of Canada Development Investment Corporation	Finance
Canada Foundation for Innovation	Other Entity	Industry
Canada Games Council	Other Entity	Canadian Heritage
Canada Hibernia Holding Corporation	Subsidiary of Canada Development Investment Corporation	Finance
Canada Lands Company CLC Limited	Subsidiary of Canada Lands Company Limited	Public Works and Government Services
Canada Lands Company Limited	Parent Crown Corporation	Public Works and Government Services
Canada-Manitoba Agri-Food Research and Development Initiatives	Other Entity	Agriculture and Agri-Food
Canada Millennium Scholarship Foundation [2]	Other Entity	Human Resources Development/Finance
Canada Mortgage and Housing Corporation	Parent Crown Corporation	Public Works and Government Services
Canada-Newfoundland Agri-Food Innovation Fund	Other Entity	Agriculture and Agri-Food
Canada-Newfoundland Offshore Petroleum Board	Other Entity	Natural Resources
Canada-Nova Scotia Offshore Petroleum Board	Other Entity	Natural Resources
Canada Pension Plan Investment Board	Parent Crown Corporation	Finance

[2] The Canada Millennium Scholarship Foundation became a legal entity with the June 18, 1998 passage of the *Budget Implementation Act, 1998.*

Name of Corporation	Category	Ministerial Portfolio
Canada Place Corporation	Subsidiary of Vancouver Port Corporation	Transport
Canada Ports Corporation	Parent Crown Corporation	Transport
Canada Post Corporation	Parent Crown Corporation	Public Works and Government Services
Canada Post Holdings	Subsidiary of Canada Post Corporation	Public Works and Government Services
Canada Post Systems Management Ltd.	Subsidiary of Canada Post Corporation	Public Works and Government Services
Canada Television and Cable Production Fund	Other Entity	Canadian Heritage
Canadian Broadcasting Corporation	Parent Crown Corporation	Canadian Heritage
Canadian Centre on Substance Abuse	Other Entity	Health
Canadian Commercial Corporation	Parent Crown Corporation	International Trade
Canadian Dairy Commission	Parent Crown Corporation	Agriculture and Agri-Food
Canadian Farm Business Management Council	Other Entity	Agriculture and Agri-Food
Canadian Film Development Corporation	Parent Crown Corporation	Canadian Heritage
Canadian International Grains Institute	Other Entity	Agriculture and Agri-Food
Canadian Livestock Records Corporation	Other Entity	Agriculture and Agri-Food
Canadian Museum of Civilization	Parent Crown Corporation	Canadian Heritage
Canadian Museum of Nature	Parent Crown Corporation	Canadian Heritage
Canadian Race Relations Foundation	Parent Crown Corporation	Canadian Heritage
Canadian Teleservices Corporation	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Canadian Tennis Technology Limited	Associate of Enterprise Cape Breton Corporation	Industry
Canadian Wheat Board, The	Parent Crown Corporation	Natural Resources/ Canadian Wheat Board
Cape Breton Carbofuels Limited	Subsidiary of Cape Breton Development Corporation	Natural Resources
Cape Breton Development Corporation	Parent Crown Corporation	Natural Resources
Cape Breton Marine Farming Limited	Subsidiary of Enterprise Cape Breton Corporation	Industry
Caribbean Development Bank	International Organization	Foreign Affairs
Centre de développement du porc du Québec Inc.	Other Entity	Agriculture and Agri-Food
Centre d'entreprises et d'innovation de Montréal	Other Entity	Industry (Canada Economic Development)
Centre de promotion du logiciel québécois	Other Entity	Industry (Canada Economic Development)
Charlottetown Airport Authority Inc.	Other Entity	Transport
CLC Downsview Inc.	Subsidiary of Canada Lands Company Limited	Public Works and Government Services
Coaching Association of Canada	Other Entity	Canadian Heritage
Cominco Ltd.	Associate of Business Development Bank of Canada	Industry

Name of Corporation	Category	Ministerial Portfolio
Commonwealth Centre for Sport Development	Other Entity	Canadian Heritage
Commonwealth War Graves Commission	International Organization	Veterans Affairs
Conseil de recherches en pêche et agroalimentaire du Québec	Other Entity	Agriculture and Agri-Food
Conseil pour le développement de l'agriculture du Québec (CDAQ)	Other Entity	Agriculture and Agri-Food
Cooperative Vereniging International Post Corporation U.A.	Associate of Canada Post Corporation	Public Works and Government Services
DARR (Cape Breton) Limited	Subsidiary of Enterprise Cape Breton Corporation	Industry
Defence Construction (1951) Limited	Parent Crown Corporation	Public Works and Government Services
Distribution Management Services Inc.	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Enterprise Cape Breton Corporation	Parent Crown Corporation	Industry
European Bank for Reconstruction and Development	International Organization	Finance
Exinvest Inc.	Subsidiary of Export Development Corporation	International Trade
Export Development Corporation	Parent Crown Corporation	International Trade
Farm Credit Corporation	Parent Crown Corporation	Agriculture and Agri-Food
Fondation du maire de Montréal pour la Jeunesse	Other Entity	Industry (Canada Economic Development)
Fonds de développement-emploi Montréal	Other Entity	Industry (Canada Economic Development)
Fonds québécois d'adaptation des entreprises agroalimentaires	Other Entity	Agriculture and Agri-Food
Forest Engineering Research Institute of Canada	Other Entity	Natural Resources
Forintek Canada Corporation	Other Entity	Natural Resources
Fraser River Harbour Commission	Other Entity	Transport
Freshwater Fish Marketing Corporation	Parent Crown Corporation	Fisheries and Oceans
GEAGRI	Other Entity	Agriculture and Agri-Food
Gander International Airport Authority	Other Entity	Transport
General Mining Building Limited	Associate of Enterprise Cape Breton Corporation	Industry
Great Lakes Pilotage Authority, Ltd.	Subsidiary of The St. Lawrence Seaway Authority; Parent Crown Corporation pursuant to the *Pilotage Act*	Transport
Greater Fredericton Airports Authority Inc.	Other Entity	Transport
Greater London International Airport Authority	Other Entity	Transport
Greater Moncton Airport Authority, The	Other Entity	Transport

Name of Corporation	Category	Ministerial Portfolio
Greater Toronto Airports Authority	Other Entity	Transport
Gulf Bras D'Or Estates Limited	Subsidiary of Enterprise Cape Breton Corporation	Industry
Halifax International Airport	Other Entity	Transport
Halifax Port Corporation	Parent Crown Corporation	Transport
Hamilton Harbour Commission	Other Entity	Transport
Hibernia Management and Development Company Ltd.	Associate of Canada Hibernia Holding Corporation	Finance
Institut de design Montréal	Other Entity	Industry (Canada Economic Development)
Institut EDI du Québec	Other Entity	Industry (Canada Economic Development)
Inter-American Development Bank	International Organization	Foreign Affairs
International Bank for Reconstruction and Development	International Organization	Finance
International Boundary Commission	International Organization	Foreign Affairs
International Centre for Human Rights and Democratic Development	Other Entity	Foreign Affairs
International Development Association	International Organization	Finance
International Development Research Centre	Parent Crown Corporation	Foreign Affairs
International Finance Corporation	International Organization	Finance
International Fisheries Commissions Pension Society	Other Entity	Fisheries and Oceans
International Lake Memphremagog Levels Board	International Organization	Environment
International Lake of the Woods Control Board	International Organization	Environment
International Monetary Fund	International Organization	Finance
International Niagara Committee	International Organization	Environment
International Porcupine Caribou Board	International Organization	Environment
IPC Technology S.C.	Subsidiary of Cooperative Vereniging International Post Corporation U.A.	Public Works and Government Services
IPC Unipost S.C.	Subsidiary of Cooperative Vereniging International Post Corporation U.A.	Public Works and Government Services
Jacques Cartier and Champlain Bridges Incorporated, The	Subsidiary of The St. Lawrence Seaway Authority	Transport
Last Post Fund	Other Entity	Veterans Affairs
Laurentian Pilotage Authority	Parent Crown Corporation	Transport
Le Consortium de télévision Québec Canada Inc. (TV5)	Other Entity	Canadian Heritage
Lower Churchill Development Corporation Limited	Joint Enterprise	Natural Resources

Name of Corporation	Category	Ministerial Portfolio
Lynwood Inn Limited	Associate of Enterprise Cape Breton Corporation	Industry
Manitoba Crop Diversification Centre	Other Entity	Agriculture and Agri-Food
Marine Atlantic Inc.	Parent Crown Corporation	Transport
Maritime Forestry Complex Corporation	Other Entity	Natural Resources
Master FM Limited	Associate of the Canadian Broadcasting Corporation	Canadian Heritage
Montréal International	Other Entity	Industry (Canada Economic Development)
Montreal Port Corporation	Parent Crown Corporation	Transport
Multilateral Investment Guarantee Agency	International Organization	Finance
Nanaimo Harbour Commission	Other Entity	Transport
National Arts Centre Corporation	Parent Crown Corporation	Canadian Heritage
National Capital Commission	Parent Crown Corporation	Canadian Heritage
National Community Tree Foundation	Other Entity	Natural Resources
National Gallery of Canada	Parent Crown Corporation	Canadian Heritage
National Museum of Science and Technology Corporation	Parent Crown Corporation	Canadian Heritage
National Sport Centre — Calgary	Other Entity	Canadian Heritage
Nature Trust of British Columbia, The	Other Entity	Prime Minister
NAV CANADA	Other Entity	Transport
New Brunswick Biotechnology and Technological Innovation Centre of Excellence Inc. (BioAtlantech)	Other Entity	Agriculture and Agri-Food
North American Commission for Environmental Cooperation — Joint Public Advisory Committee	International Organization	Environment
North Fraser Harbour Commission	Other Entity	Transport
North Portage Development Corporation & The Forks Renewal Corporation	Joint Enterprise	Industry (Western Economic Diversification)
Northern Native Fishing Corporation	Other Entity	Indian Affairs and Northern Development
Nova Scotia Apple Industry Development Fund	Other Entity	Agriculture and Agri-Food
Nova Scotia Research and Development for Grain and Forage	Other Entity	Agriculture and Agri-Food
Nova Scotia Technology Development 2000	Other Entity	Agriculture and Agri-Food
NPM Nuclear Project Managers Canada Inc.	Mixed Enterprise	Natural Resources
Old Port of Montreal Corporation Inc.	Subsidiary of Canada Lands Company Limited; reports as a parent Crown corporation pursuant to subsection 86(2) of the *Financial Administration Act.*	Public Works and Government Services
Ontario Agriculture Training Institute	Other Entity	Agriculture and Agri-Food

Name of Corporation	Category	Ministerial Portfolio
Ontario Safety Net Research and Development Fund	Other Entity	Agriculture and Agri-Food
Oshawa Harbour Commission	Other Entity	Transport
Ottawa Macdonald-Cartier International Airport Authority	Other Entity	Transport
Pacific Pilotage Authority	Parent Crown Corporation	Transport
Pan American Games Society (WPG 1999) Inc.	Other Entity	Canadian Heritage
PARTICIPaction	Other Entity	Health
PCL Courier Holdings Inc.	Subsidiary of Canada Post Holdings	Public Works and Government Services
Petro-Canada	Mixed Enterprise	Finance
Petro-Canada Limited	Parent Crown Corporation	Finance
Plastiservices Inc.	Other Entity	Industry (Canada Economic Development)
Port Alberni Harbour Commission	Other Entity	Transport
Port of Quebec Corporation	Parent Crown Corporation	Transport
POS Pilot Plant Corporation	Other Entity	Agriculture and Agri-Food
Prince Rupert Port Corporation	Parent Crown Corporation	Transport
Pulp and Paper Research Institute of Canada	Other Entity	Natural Resources
Purolator Courier Ltd.	Subsidiary of PCL Courier Holdings Inc.	Public Works and Government Services
Purolator Customs Services Ltd.	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Queens Quay West Land Corporation	Parent Crown Corporation	Public Works and Government Services
Regina Airport Authority	Other Entity	Transport
Ridley Terminals Inc.	Subsidiary of Canada Ports Corporation	Transport
Roosevelt Campobello International Park Commission	Other Entity	Foreign Affairs
Royal Canadian Mint	Parent Crown Corporation	Public Works and Government Services
Saint John Airport Inc.	Other Entity	Transport
Saint John Harbour Bridge Authority	Other Entity	Transport
Saint John Port Corporation	Parent Crown Corporation	Transport
St. John's Port Corporation	Parent Crown Corporation	Transport
St. John's International Airport Authority	Other Entity	Transport
St. Lawrence Seaway Authority, The	Parent Crown Corporation	Transport
Saskatoon Airport Authority	Other Entity	Transport
Silver Screen Star Limited	Associate of Enterprise Cape Breton Corporation	Industry
Seaway International Bridge Corporation, Ltd., The	Subsidiary of The St. Lawrence Seaway Authority	Transport

Name of Corporation	Category	Ministerial Portfolio
Société aéroportuaire de Québec	Other Entity	Transport
Société du parc industriel et portuaire Québec-Sud	Joint Enterprise	Industry (Canada Economic Development)
Sport Information Resource Centre	Other Entity	Canadian Heritage
Standards Council of Canada	Parent Crown Corporation	Industry
Supercourier (1987) Ltd.	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Terry Fox Humanitarian Award Inc.	Other Entity	Health
Thunder Bay Harbour Commission	Other Entity	Transport
Thunder Bay International Airports Authority Inc.	Other Entity	Transport
Toronto Harbour Commission	Other Entity	Transport
Vancouver Port Corporation	Parent Crown Corporation	Transport
Vanier Institute of the Family, The	Other Entity	Prime Minister
Varity Corporation	Associate of Canada Development Investment Corporation	Finance
VIA Rail Canada Inc.	Parent Crown Corporation	Transport
Victoria Airport Authority	Other Entity	Transport
Visnews Limited	Associate of the Canadian Broadcasting Corporation	Canadian Heritage
Western Grains Research Foundation	Other Entity	Agriculture and Agri-Food
Wildlife Habitat Canada	Other Entity	Environment
Windsor Harbour Commission	Other Entity	Transport
Winnipeg Airports Authority Inc.	Other Entity	Transport

Tabling of Reports in Parliament

The Importance of Adequate and Timely Information to Parliament

The provision of adequate and timely information to Parliament is a major objective of the control and accountability regime for Crown corporations. A well-functioning accountability framework is based on the premise that Parliament and the government will receive useful information that will allow active judgement of corporate performance.

Corporations report on their performance through the corporate plan summary and the annual report. For each Crown corporation listed in Part I and Part II of Schedule III of the *Financial Administration Act* (FAA), the appropriate minister tables a corporate plan summary, a capital budget summary and an annual report in Parliament. In addition, an operating budget summary is tabled for Crown corporations listed in Part I of Schedule III.

The corporate plan and budget summaries inform Parliament of the strategic priorities and financial position of each Crown corporation. The summaries are based on the approved corporate plan and budgets, and cover the businesses, activities and investments of a corporation and of its wholly owned subsidiaries with respect to its future operations. A corporation's annual report informs Parliament of the corporation's performance relative to the objectives, strategies and activities approved by the government and tabled in the previous corporate plan and budget summaries.

The Deadlines for Tabling in Parliament

The deadlines for tabling, before each House of Parliament, the corporate plan summary, budget summaries and annual report are:

Corporate Plan Summary: 30 sitting days after approval by the Governor in Council of the corporate plan. A summary of an amended corporate plan has the same deadline.

Capital and Operating Budget Summaries: 30 sitting days after Treasury Board approval of the budget. Where the operating and/or capital budgets are incorporated into the corporate plan, the deadlines for the budget summaries are the same as those for the corporate plan summary.

Annual Report: A corporation is to submit, to the appropriate minister, an annual report within three months of its financial year-end. The appropriate minister has 15 sitting days to table the annual report in each House of Parliament. The deadline is calculated from the date on which the appropriate minister acknowledges receipt of the report, when available, or three months following the fiscal year-end of the corporation, whichever is earlier.

These deadlines are based on actual sitting days, not projected sitting days. Since future sitting days cannot be predicted, deadlines falling after July 31, 1998 cannot be calculated.

Documents Tabled in Parliament

As required by subsection 152(1) of the FAA, the table below records the status of Crown corporations' annual reports and summaries of corporate plans and budgets during the period August 1, 1997 to July 31, 1998. The table identifies any document that meets at least one of the two following conditions:

- The document was tabled during the period in review; or
- The document has not been tabled but was due to be tabled before or during the period in review.

Where the deadline falls after July 31, 1998 but the document was tabled during the period in review, the document is considered to have been tabled on time and will not be reported in future years.

Subsection 152(2) of the FAA requires the Auditor General of Canada to include, in his annual report to Parliament, a statement attesting to the accuracy of the information contained in this table.

Further Information

Information on annual reports and corporate plan and budget summaries may be obtained by contacting the individual corporations. The Corporate Abstracts chapter of this report provides additional information on individual Crown corporations.

TABLING OF REPORTS IN PARLIAMENT BY SCHEDULED PARENT CROWN CORPORATIONS DURING THE YEAR ENDED JULY 31, 1998

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Atlantic Pilotage Authority					
1997	Annual Report	1998-05-05	1998-04-20	1998-06-02	1998-04-28
1998	Capital Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998	Operating Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
Atomic Energy of Canada Limited					
1996/97	Annual Report	1997-10-10	1997-10-09	1997-11-04	1997-10-21
1996/97	Capital Budget Summary	1997-03-21	1997-10-09	1997-04-17	1997-10-21
1996/97	Operating Budget Summary	1997-03-21	1997-10-09	1997-04-17	1997-10-21
1997/98	Capital Budget Summary	1998-03-24	no	1998-05-12	no
1997/98	Operating Budget Summary	1998-03-24	no	1998-05-12	no
Business Development Bank of Canada					
1996/97	Annual Report	1997-10-10	1997-09-23	1997-11-04	1997-09-30
1997/98	Annual Report	n/av[1]	1998-07-22	n/av	no
1997/98	Capital Budget Summary	1997-10-21	1997-09-23	1997-11-20	1997-09-30
1997/98	Operating Budget Summary	1997-10-21	1997-09-23	1997-11-20	1997-09-30
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-09-23	1997-11-20	1997-09-30
Canada Deposit Insurance Corporation					
1996/97	Annual Report	1997-10-10	1997-09-23	1997-11-04	1997-09-30
1997/98	Annual Report	n/av	1998-07-22	n/av	no
1997/98	Capital Budget Summary	1997-10-08	1997-04-25	1997-11-18	1997-09-30
1997/98	Operating Budget Summary	1997-10-08	1997-04-25	1997-11-18	1997-09-30
1997/98 to 2001/02	Corporate Plan Summary	1997-10-08	1997-04-25	1997-11-18	1997-09-30
1998/99	Capital Budget Summary	1998-05-13	1998-05-13	n/av	1998-05-26
1998/99	Operating Budget Summary	1998-05-13	1998-05-13	n/av	1998-05-26
1998/99 to 2002/03	Corporate Plan Summary	1998-05-13	1998-05-13	n/av	1998-05-26

[1] n/av means not available.

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Canada Development Investment Corporation					
1997	Annual Report	1998-05-13	1998-04-29	1998-06-04	1998-04-30
1998	Capital Budget Summary	1998-03-24	1998-04-29	1998-05-28	1998-04-30
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-04-29	1998-05-28	1998-04-30
Canada Lands Company Limited					
1996/97	Annual Report	1997-10-10	1997-10-01	1997-11-04	1997-10-02
1997/98	Annual Report	n/av	1998-07-22	n/av	no
1997/98	Capital Budget Summary	1997-10-21	1997-10-01	1997-11-20	1997-10-02
1997/98	Operating Budget Summary	1997-10-21	1997-10-01	1997-11-20	1997-10-02
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-10-01	1997-11-20	1997-10-02
1997/98	Capital Budget Summary Amendment	1998-02-20	1998-02-19	1998-03-26	1998-02-24
1997/98	Operating Budget Summary Amendment	1998-02-20	1998-02-19	1998-03-26	1998-02-24
1997/98 to 2001/02	Corporate Plan Summary Amendment	1998-02-20	1998-02-19	1998-03-26	1998-02-24
Canada Mortgage and Housing Corporation					
1996	Annual Report	1997-04-25	1997-04-24	1997-10-01	1997-04-25
1997	Annual Report	1998-05-04	1998-04-23	1998-05-28	1998-04-28
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998	Operating Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
Canada Ports Corporation [1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1997	Capital Budget Summary Amendment	1997-11-07	no	1997-12-11	no
1997 to 2001	Corporate Plan Summary Amendment	1997-11-07	no	1997-12-11	no
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Canada Post Corporation					
1996/97	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997/98	Annual Report	n/av	1998-06-17	n/av	no
Canadian Commercial Corporation					
1996/97	Annual Report	1997-10-10	1997-09-26	1997-11-04	1997-10-01
1997/98	Capital Budget Summary	1997-10-08	1997-10-10	1997-11-18	1997-10-21
1997/98	Operating Budget Summary	1997-10-08	1997-10-10	1997-11-18	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-10-08	1997-10-10	1997-11-18	1997-10-21
Canadian Dairy Commission					
1996/97	Annual Report	1997-11-19	1997-12-01	1997-12-03	1997-12-02
1997/98	Capital Budget Summary	1997-11-07	1997-09-24	1997-12-11	1997-10-01
1997/98	Operating Budget Summary	1997-11-07	1997-09-24	1997-12-11	1997-10-01
1997/98 to 2001/02	Corporate Plan Summary	1997-11-07	1997-09-24	1997-12-11	1997-10-01
Canadian Museum of Civilization					
1996/97	Annual Report	1997-10-10	1997-10-22	1997-11-04	1997-10-21
1997/98	Capital Budget Summary	1997-10-21	1997-10-09	1997-11-20	1997-10-21
1997/98	Operating Budget Summary	1997-10-21	1997-10-09	1997-11-20	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-10-09	1997-11-20	1997-10-21
1998/99	Capital Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99	Operating Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99 to 2002/03	Corporate Plan Summary	1998-06-05	1998-06-04	n/av	no
Canadian Museum of Nature					
1996/97	Annual Report	1997-10-10	1997-10-09	1997-11-04	1997-10-21
1997/98	Capital Budget Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1997/98	Operating Budget Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1998/99	Capital Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99	Operating Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99 to 2002/03	Corporate Plan Summary	1998-06-05	1998-06-04	n/av	no

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Cape Breton Development Corporation					
1996/97	Annual Report	1997-10-10	1997-10-03	1997-11-04	1997-10-21
1997/98	Annual Report	n/av	1998-07-22	n/av	no
1997/98	Capital Budget Summary	1997-10-21	1997-10-09	1997-11-20	1997-10-21
1997/98	Operating Budget Summary	1997-10-21	1997-10-09	1997-11-20	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-10-09	1997-11-20	1997-10-21
1998/99	Capital Budget Summary	1998-06-05	1998-06-08	n/av	1998-06-09
1998/99	Operating Budget Summary	1998-06-05	1998-06-08	n/av	1998-06-09
Defence Construction (1951) Limited					
1996/97	Annual Report	1997-10-10	1997-11-17	1997-11-04	1997-11-18
1997/98	Capital Budget Summary	1997-10-21	1997-11-17	1997-11-20	1997-11-18
1997/98	Operating Budget Summary	1997-10-21	1997-11-17	1997-11-20	1997-11-18
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-11-17	1997-11-20	1997-11-18
1998/99	Capital Budget Summary	1998-06-12	no	n/av	no
1998/99	Operating Budget Summary	1998-06-12	no	n/av	no
1998/99 to 2002/03	Corporate Plan Summary	1998-06-12	no	n/av	no
Enterprise Cape Breton Corporation					
1996/97	Annual Report	1997-10-10	1997-10-01	1997-11-04	1997-10-22
1996/97	Capital Budget Summary Amendment	1996-12-06	1998-02-02	1997-02-12	1998-02-10
1996/97	Operating Budget Summary Amendment	1996-12-06	1998-02-02	1997-02-12	1998-02-10
1997/98	Capital Budget Summary	1998-02-20	1998-03-12	1998-03-26	1998-03-19
1997/98	Operating Budget Summary	1997-11-07	no	1997-12-11	no
1997/98	Operating Budget Summary Amendment	1998-02-20	1998-03-12	1998-03-26	1998-03-19
1997/98 to 2001/02	Corporate Plan Summary	1998-02-20	1998-03-12	1998-03-26	1998-03-19
Export Development Corporation					
1997	Annual Report	1998-04-21	1998-03-23	1998-05-07	1998-03-24
1998	Capital Budget Summary	1998-03-24	1998-03-24	1998-05-28	1998-03-25
1998	Operating Budget Summary	1998-03-24	1998-03-24	1998-05-28	1998-03-25
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-24	1998-05-28	1998-03-25

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Farm Credit Corporation					
1996/97	Annual Report	1997-10-10	1997-09-24	1997-11-04	1997-09-30
1997/98	Annual Report	n/av	1998-06-17	n/av	no
1997/98	Capital Budget Summary	1997-11-07	1997-09-24	1997-12-11	1997-09-30
1997/98	Operating Budget Summary	1997-11-07	1997-09-24	1997-12-11	1997-09-30
1997/98 to 2001/02	Corporate Plan Summary	1997-11-07	1997-09-24	1997-12-11	1997-09-30
1998/99	Capital Budget Summary	1998-06-12	1998-06-17	n/av	no
1998/99	Operating Budget Summary	1998-06-12	1998-06-17	n/av	no
1998/99 to 2002/03	Corporate Plan Summary	1998-06-12	1998-06-17	n/av	no
Freshwater Fish Marketing Corporation					
1996/97	Annual Report	1997-12-05	1997-11-17	1997-12-15	1997-11-18
1997/98	Capital Budget Summary	1997-11-07	1997-10-09	1997-12-11	1997-10-21
1997/98	Operating Budget Summary	1997-11-07	1997-10-09	1997-12-11	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-11-07	1997-10-09	1997-12-11	1997-10-21
Great Lakes Pilotage Authority, Ltd.					
1997	Annual Report	1998-05-05	1998-04-20	1998-06-02	1998-04-28
1998	Capital Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998	Operating Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
Halifax Port Corporation[1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1998	Capital Budget Summary	1998-03-25	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-25	1998-03-19	1998-05-28	1998-03-24
Laurentian Pilotage Authority					
1995	Capital Budget Summary Amendment	1996-04-22	no	1996-06-12	no
1997	Annual Report	1998-05-05	1998-04-20	1998-06-02	1998-04-28
1998	Capital Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998	Operating Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Marine Atlantic Inc.					
1996	Annual Report	1997-04-25	1997-09-26	1997-10-08	1997-10-01
1997	Annual Report	1998-05-11	1998-04-27	1998-06-04	1998-04-28
1998	Capital Budget Summary	1998-03-25	1998-03-19	1998-05-28	1998-03-24
1998	Operating Budget Summary	1998-03-25	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-25	1998-03-19	1998-05-28	1998-03-24
Montreal Port Corporation[1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
National Capital Commission					
1996/97	Annual Report	1997-10-10	1997-10-09	1997-11-04	1997-10-21
1997/98	Capital Budget Summary	1998-02-13	1998-02-13	1998-03-19	1998-02-17
1997/98	Operating Budget Summary	1998-02-13	1998-02-13	1998-03-19	1998-02-17
1997/98 to 2001/02	Corporate Plan Summary	1998-02-13	1998-02-13	1998-03-19	1998-02-17
1998/99	Capital Budget Summary	1998-06-12	1998-06-04	n/av	no
1998/99	Operating Budget Summary	1998-06-12	1998-06-04	n/av	no
1998/99 to 2002/03	Corporate Plan Summary	1998-06-12	1998-06-04	n/av	no
National Gallery of Canada					
1995/96	Annual Report	1996-10-04	1996-10-07	1996-11-05	1996-10-21
1996/97	Annual Report	1997-10-10	1997-10-09	1997-11-04	1997-10-21
1997/98	Capital Budget Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1997/98	Operating Budget Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1998/99	Capital Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99	Operating Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99 to 2002/03	Corporate Plan Summary	1998-06-05	1998-06-04	n/av	no

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
National Museum of Science and Technology					
1996/97	Annual Report	1997-10-10	1997-10-09	1997-11-04	1997-10-21
1997/98	Capital Budget Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1997/98	Operating Budget Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	1997-10-20	1997-11-20	1997-10-21
1998/99	Capital Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99	Operating Budget Summary	1998-06-05	1998-06-04	n/av	no
1998/99 to 2002/03	Corporate Plan Summary	1998-06-05	1998-06-04	n/av	no
Old Port of Montreal Corporation Inc.					
1996/97	Annual Report	1997-10-10	1997-10-01	1997-11-04	1997-10-02
1996/97	Capital Budget Summary	1996-10-04	no	1996-11-25	no
1996/97	Operating Budget Summary	1996-10-04	no	1996-11-25	no
1996/97 to 2000/01	Corporate Plan Summary	1996-10-04	no	1996-11-25	no
1996/97	Capital Budget Summary Amendment	1997-04-17	no	1997-10-02	no
1996/97	Operating Budget Summary Amendment	1997-04-17	no	1997-10-02	no
1997/98	Capital Budget Summary	1997-11-07	1997-12-10	1997-12-11	1997-12-12
1997/98	Operating Budget Summary	1997-11-07	1997-12-10	1997-12-11	1997-12-12
1997/98 to 2001/02	Corporate Plan Summary	1997-11-07	1997-12-10	1997-12-11	1997-12-12
Pacific Pilotage Authority					
1997	Annual Report	1998-05-05	1998-04-20	1998-06-02	1998-04-28
1998	Capital Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998	Operating Budget Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-09	1998-05-28	1998-03-19
Petro-Canada Limited					
1997	Annual Report	1998-05-08	1998-04-28	1998-06-04	1998-04-29
1998	Capital Budget Summary	1998-03-24	1998-03-16	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-16	1998-05-28	1998-03-24

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Port of Quebec Corporation[1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
Prince Rupert Port Corporation[1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
Queens Quay West Land Corporation					
1996/97	Annual Report	1997-12-10	1997-11-19	1997-12-16	1997-11-19
1997/98	Capital Budget Summary	1997-10-21	no	1997-11-20	no
1997/98	Operating Budget Summary	1997-10-21	no	1997-11-20	no
1997/98 to 2001/02	Corporate Plan Summary	1997-10-21	no	1997-11-20	no
Royal Canadian Mint					
1997	Annual Report	1998-05-05	1998-04-03	1998-06-02	1998-04-28
1998	Capital Budget Summary	1998-03-16	1998-02-04	1998-04-30	1998-02-10
1998 to 2002	Corporate Plan Summary	1998-03-16	1998-02-04	1998-04-30	1998-02-10
Saint John Port Corporation[1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
St. John's Port Corporation[1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
St. Lawrence Seaway Authority, The					
1996/97	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997/98	Annual Report	n/av	1998-07-22	n/av	no
1997/98	Capital Budget Summary	1997-11-07	1997-10-10	1997-12-11	1997-10-21
1997/98	Operating Budget Summary	1997-11-07	1997-10-10	1997-12-11	1997-10-21
1997/98 to 2001/02	Corporate Plan Summary	1997-11-07	1997-10-10	1997-12-11	1997-10-21
Standards Council of Canada					
1996/97	Annual Report	1997-10-10	1997-09-23	1997-11-04	1997-09-30
1997/98	Annual Report	n/av	1998-07-22	n/av	no
1997/98	Capital Budget Summary	1997-10-08	1997-09-23	1997-11-18	1997-09-30
1997/98	Operating Budget Summary	1997-10-08	1997-09-23	1997-11-18	1997-09-30
1997/98 to 2001/02	Corporate Plan Summary	1997-10-08	1997-09-23	1997-11-18	1997-09-30
1998/99	Capital Budget Summary	1998-06-12	1998-06-02	n/av	1998-06-03
1998/99	Operating budget Summary	1998-06-12	1998-06-02	n/av	1998-06-03
1998/99 to 2002/03	Corporate Plan Summary	1998-06-12	1998-06-02	n/av	1998-06-03
Vancouver Port Corporation[1]					
1996	Annual Report	1997-10-10	1997-10-10	1997-11-04	1997-10-21
1997	Annual Report	1998-05-28	1998-05-15	1998-06-10	1998-05-26
1998	Capital Budget Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
1998 to 2002	Corporate Plan Summary	1998-03-24	1998-03-19	1998-05-28	1998-03-24
VIA Rail Canada Inc.					
1996	Annual Report	1997-04-25	1997-04-24	1997-11-19	1997-09-30
1997	Annual Report	1998-05-05	1998-04-20	1998-06-02	1998-04-28
1997	Capital Budget Summary	1997-11-07	1997-12-11	1997-12-11	1997-12-12
1997	Operating Budget Summary	1997-11-07	1997-12-11	1997-12-11	1997-12-12
1997 to 2001	Corporate Plan Summary	1997-11-07	1997-12-11	1997-12-11	1997-12-12

[1] The *Canada Ports Corporation Act* specifies that the annual report of the Canada Ports Corporation shall include the annual reports of the local port corporations and that it shall be submitted to the appropriate minister no later than four months after the financial year-end. These reports are tabled as one document.

ANNEX

Audited Financial Statements for Each Parent Crown Corporation

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INTRODUCTION

The Annex contains the audited financial statements for each parent Crown corporation. Also included, where appropriate, are the financial statements of wholly owned subsidiaries not consolidated with the statements of the parent corporation.

Some of the information in the Overview of the Portfolio and the Corporate Abstracts chapters of this report is extracted from these audited statements. For more information, the reader should contact the corporations directly.

ATLANTIC PILOTAGE AUTHORITY

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by the Authority's management in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial reports.

The Authority's management recognizes the responsibility of conducting its affairs in compliance with the *Pilotage Act* and regulations, the *Financial Administration Act* and regulations, and the by-laws of the Authority.

The Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Authority exercises its responsibilities through its Audit Committee, which is composed of members who are not employees of the Authority. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with generally accepted auditing standards, and expresses his opinion on the financial statements. He has full and free access to the Audit Committee of the Authority, and his report follows.

R. A. McGuinness
Chairman and Chief Executive Officer

P. L. MacArthur
Treasurer

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 1997 and the statements of operations, deficit, and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, and the by-laws of the Authority.

Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 13, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997

ASSETS	1997	1996
	$	$
Current		
Cash and investments (Note 3)	1,445,271	739,278
Accounts receivable, net (Note 3)	1,528,789	1,037,150
Prepaid expenses	25,320	26,056
	2,999,380	1,802,484
Capital assets, at cost (Note 4)	2,678,845	2,496,785
Less: accumulated amortization	1,876,959	1,710,864
	801,886	785,921
	3,801,266	2,588,405

LIABILITIES	1997	1996
	$	$
Current		
Accounts payable and accrued liabilities (Note 3)	615,389	736,673
Current portion of accrued employee termination benefits	87,997	39,184
Deferred rent		6,091
	703,386	781,948
Long-term		
Accrued employee termination benefits	910,840	662,099
	1,614,226	1,444,047
Commitments (Note 6)		
CONTRIBUTED CAPITAL AND DEFICIT		
Contributed capital	2,304,546	2,304,546
Deficit	(117,506)	(1,160,188)
	2,187,040	1,144,358
	3,801,266	2,588,405

See accompanying notes.

Approved by the Authority:

R. A. McGUINNESS
Chairman

D. MacALPINE
Member

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Income		
Pilotage charges	9,556,498	7,988,021
Other income	81,254	41,660
	9,637,752	8,029,681
Expenses		
Pilots' fees, salaries and benefits	4,340,466	3,742,862
Pilot boats, operating costs	2,494,651	2,324,708
Staff salaries and benefits	654,946	514,612
Transportation and travel	385,124	341,959
Professional and special services	199,444	139,783
Utilities, materials and supplies	183,282	157,067
Amortization	166,095	134,083
Rentals	106,088	116,221
Communications	64,974	66,347
	8,595,070	7,537,642
Net profit from operations	1,042,682	492,039
Gain from settlement of lawsuit (Note 7)		144,315
Net profit for the year	1,042,682	636,354

See accompanying notes.

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Balance, beginning of the year	1,160,188	1,796,542
Net profit for the year	(1,042,682)	(636,354)
Balance, end of the year	117,506	1,160,188

See accompanying notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Operating activities		
Cash provided by (used for) operations		
Net profit from operations for the year	1,042,682	492,039
Items not requiring cash		
Amortization	166,095	134,083
Increase in accrued employee termination benefits	335,861	86,906
Decrease in deferred rent	(6,091)	(26,669)
	1,538,547	686,359
Cash provided by gain on settlement of lawsuit		144,315
Cash used for non-cash working capital	(612,187)	(42,936)
Employee termination benefit payments	(38,307)	(14,367)
Cash provided by operating activities	888,053	773,371
Investing activities		
Net additions to capital assets	(182,060)	(150,051)
Cash used for investing activities	(182,060)	(150,051)
Increase in cash and investments during the year	705,993	623,320
Cash and investments, beginning of the year	739,278	115,958
Cash and investments, end of the year	1,445,271	739,278

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Objectives and activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable, and sufficient, together with any revenue from other sources, to permit the Authority to operate on a self-sustaining financial basis. According to the National Marine Policy dated December 1995, the Authority no longer has access to parliamentary appropriations. Bill C-9, currently before the Senate, proposes amendments to the *Pilotage Act* whereby no payment to an Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. Significant accounting policies

(a) Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	5 to 10 years

(b) Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(c) Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded as they accrue to the employees.

(d) Investments

Investments are recorded at cost. Write down of investments to market value would only be recorded for other than temporary decline in their underlying value.

3. Financial instruments

The Authority invests in Government of Canada Treasury Bills and government guaranteed bonds.

	1997		1996	
	Carrying value	Yield	Carrying value	Yield
	$	%	$	%
Maturing within 1 year				
Government of Canada Treasury Bills	309,461	3.235	299,170	2.48
Government of Canada bonds	87,906	4.171		
Provincial bonds	145,426	4.108-4.16		
	542,793		299,170	
Maturing between 1 and 3 years				
Government of Canada bonds	265,999	4.548-4.939		
Provincial bonds	99,932	4.561		
	365,931			
Maturing beyond 3 years				
Government of Canada bond	99,321	4.889		
Total investments	1,008,045		299,170	
Cash	437,226		440,108	
Total cash and investments	1,445,271		739,278	

The market value of these investments approximates both their carrying value and fair value.

Accounts receivable and accounts payable are incurred in the normal course of business. Both are due on demand. The carrying amounts of each financial instrument approximate fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer.

4. Capital assets

	1997			1996		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	$	$	$	$	$	$
Land	450		450	450		450
Pilot boats	2,220,202	1,579,986	640,216	2,220,202	1,465,029	755,173
Furniture and equipment	458,193	296,973	161,220	276,133	245,835	30,298
	2,678,845	1,876,959	801,886	2,496,785	1,710,864	785,921

5. Related party transactions

The Authority receives services from government departments and these are provided without charge. These include pilot dispatching services by the Canadian Coast Guard, through its Vessel Traffic Service Centres in Nova Scotia, New Brunswick, and Newfoundland and Labrador. Pilot dispatch services are a significant aspect of the Authority's operations. The cost of these services is not recorded in the accounts of the Authority.

6. Commitments

The Authority has entered into contracts for pilot boat services, office rentals, and wharfage rentals requiring the following minimum annual payments:

	$
1998	584,365
1999	160,228
2000	120,467
2001 and beyond	49,963
	915,023

7. Lawsuit

The Authority had previously recognized a liability of $294,315 for a lawsuit and post judgement costs. During 1996, the Authority reached an out-of-court settlement with the other party. As a result, the Authority recognized the difference between the original judgement and the settlement as a gain of $144,315 in 1996.



ATOMIC ENERGY OF CANADA LIMITED

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1998
WERE NOT AVAILABLE AT DATE OF PRINTING

BANK OF CANADA

FINANCIAL REPORTING RESPONSIBILITY

The accompanying financial statements of the Bank of Canada have been prepared by management in accordance with accounting principles generally accepted in Canada and have been consistently applied. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the annual report is consistent with the financial statements.

In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Bank has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the audit committee of the Board. The audit committee reviews the Bank's annual financial statements and recommends their approval by the Board of Directors. The audit committee meets with management, the internal auditors, and the Bank's external auditors appointed by order-in-council.

These financial statements have been audited by the Bank's external auditors, Coopers & Lybrand and Caron Bélanger Ernst & Young and their report is presented herein.

G. G. Thiessen,
Governor

L. T. Requard,
Corporate Secretary

Ottawa, Canada
February 12, 1998

AUDITORS' REPORT

TO THE MINISTER OF FINANCE, registered shareholder of the Bank of Canada

We have audited the balance sheet of the Bank of Canada as at December 31, 1997 and the statement of revenue and expense for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Caron Bélanger Ernst & Young
Chartered Accountants

Coopers & Lybrand
Chartered Accountants

Ottawa, Canada
January 23, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997
(in millions of dollars)

ASSETS	1997	1996
Deposits in foreign currencies		
U.S. dollars	383.1	235.0
Other currencies	3.2	4.0
	386.3	239.0
Advances to members of the Canadian Payments Association	363.3	553.8
Investments (Note 7)		
Treasury bills of Canada	14,065.0	17,416.5
Other securities issued or guaranteed by Canada maturing within three years	4,165.7	2,328.3
Other securities issued or guaranteed by Canada not maturing within three years	8,799.7	5,635.2
Other investments	3,434.1	3,942.4
	30,464.5	29,322.4
Bank premises (Note 4)	189.0	198.2
Other assets	346.1	271.0
	31,749.2	30,584.4

LIABILITIES	1997	1996
Capital paid up (Note 5)	5.0	5.0
Rest fund (Note 6)	25.0	25.0
Bank notes in circulation	30,542.0	29,109.1
Deposits		
Government of Canada	40.6	11.0
Chartered banks	539.0	945.5
Other members of the Canadian Payments Association	24.6	14.6
Other deposits	278.3	347.8
	882.5	1,318.9
Liabilities in foreign currencies		
Government of Canada	231.2	91.0
Other liabilities	63.5	35.4
	31,749.2	30,584.4

See accompanying notes to the financial statements.

G. G. THIESSEN
Governor

D. D. LUSBY
Chief Accountant

On behalf of the Board:

W. DUBOWEC, FCA
Chairman, Audit Committee

J. MAXWELL
Lead Director

STATEMENT OF REVENUE AND EXPENSE
YEAR ENDED DECEMBER 31, 1997
(in millions of dollars)

	1997	1996
Revenue		
Revenue from investments, net of interest paid on deposits of $3.8 million ($9.8 million in 1996)	1,578.6	1,648.8
Expense by function (Notes 1 and 3)		
Monetary policy	37.4	35.0
Central banking services	25.5	22.8
Currency	65.7	69.6
Debt-management services		
Market debt services	8.4	9.9
Retail debt services	47.7	41.7
	184.7	179.0
Less retail debt recoveries	(28.9)	
	155.8	179.0
Other expenses (revenue)	(11.6)	34.7
	144.2	213.7
Net revenue paid to Receiver General for Canada	1,434.4	1,435.1

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. Bank functions

The Bank of Canada's primary responsibilities are set out in the *Bank of Canada Act* and can be grouped into four broad functions which are described below. Net operating expense in the Statement of revenue and expenses are reported on the basis of these four corporate functions. Net operating expenses by major objects of expenditure are presented in Note 3.

Monetary policy

The Bank's most important responsibility is monetary policy. Monetary policy is concerned with managing the rate of monetary expansion in a way that is consistent with preserving the value of money.

Central banking services

The Bank carries out a variety of activities that regulate and support Canada's principal systems for clearing and settling payments and other financial transactions. The Bank also provides a number of central banking services and advice to the federal government, financial institutions, and the general public.

Currency

The Bank is responsible for issuing bank notes in Canada. This responsibility involves note design (including anti-counterfeiting features) as well as the printing and distribution of bank notes and their eventual replacement.

Debt-management services

Market debt services

As fiscal agent, the Bank advises the federal government on matters relating to the public debt and is responsible for issuing debt, maintaining bondholder records, and making payments on behalf of the government for interest and debt redemption.

Retail debt services

As fiscal agent, the Bank provides administrative, systems and operational support services to the Canada Investment and Savings Agency in support of the federal government's retail debt program and is responsible for issuing debt, maintaining bondholder records, and making payments on behalf of the federal government for interest and debt redemption. Effective June 1997, as a result of amendments to the *Bank of Canada Act*, the Bank began charging the Department of Finance with the full cost of retail debt operations.

2. Significant accounting policies

The financial statements of the Bank are in accordance with generally accepted accounting principles and conform to the disclosure and accounting requirements of the *Bank of Canada Act* and the Bank's by-laws. As all material changes in financial position are evident from the financial statements, a separate statement of changes in financial position has not been prepared as it would not provide any additional useful information. The significant accounting policies of the Bank are:

(a) Revenues and expenses

Revenues and expenses are accounted for on the accrual basis, except for interest on advances to a bank ordered to be wound up which is recorded as received.

(b) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the year-end. Foreign currency assets and liabilities covered by forward contracts are converted to Canadian dollars at the contracted rates. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

(c) Advances

Advances to members of the Canadian Payments Association are liquidity loans for which the Bank charges the Bank Rate. These loans are fully collateralized and generally overnight in duration.

(d) Investments

Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost and are adjusted for amortization of purchase discounts and premiums. The amortization, as well as gains and losses on disposition, are included in revenue.

(e) Bank premises

Bank premises, consisting of land, buildings, computer hardware/software, and other equipment, are recorded at cost less accumulated depreciation. Computer software is capitalized only when its cost exceeds $2 million. Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below.

Buildings	25 to 40 years
Computer hardware/software	3 to 7 years
Other equipment	5 to 15 years

A full year of depreciation is charged against assets in the year of acquisition, except for projects in progress which are depreciated from the point of substantial completion. No depreciation is taken on assets in the year of disposal.

(f) Deposits

The liabilities within this category are generally Canadian dollar non-interest-bearing demand deposits.

(g) Insurance

The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from these risks are recorded in the accounts at the time they can be reasonably estimated.

3. Expense by object of expenditure

	1997	1996
	(in millions of dollars)	
Salaries	72.3	71.3
Benefits and other staff expenses	17.7	23.4
Currency costs	18.4	16.8
Premises maintenance, net of rental income	26.1	28.0
Services and supplies	30.7	19.5
Depreciation	22.3	23.4
	187.5	182.4
Recoveries		
Retail debt services	(28.9)	
Other	(2.8)	(3.4)
	155.8	179.0
Other expenses (revenue)		
Settlement cost		22.3
Workforce adjustment (Note 8)	2.5	5.0
Miscellaneous	(14.1)	7.4
Total	144.2	213.7

Salaries and benefits of Bank staff engaged in premises maintenance are not included in the Salaries or Benefits and other staff expenses categories, but rather as part of Premises expenses.

Recoveries represent the fees charged by the Bank for a variety of services. Effective June 1997, the Bank began recovering the cost of retail debt operations from the Canada Investment & Savings Agency on a full cost basis.

Miscellaneous expenses (revenue) for 1997 include a net book gain of $10.1 million related to the sale of four Bank buildings outside of Ottawa, namely Halifax, Regina, Calgary and Vancouver. As well, the Bank received payment for out-of-pocket expenses of $4.0 million incurred in connection with the liquidation of the Canadian Commercial Bank (Note 10).

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

4. Bank premises

	1997			1996		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	(in millions of dollars)					
Land and buildings	201.0	88.2	112.8	224.0	97.6	126.4
Computer hardware/software	36.1	24.0	12.1	39.1	26.3	12.8
Other equipment	132.5	83.0	49.5	138.7	85.7	53.0
	369.6	195.2	174.4	401.8	209.6	192.2
Projects in progress	14.6		14.6	6.0		6.0
	384.2	195.2	189.0	407.8	209.6	198.2

5. Capital paid up

The authorized capital of the Bank is $5.0 million divided into 100,000 shares with a par value of $50 each. The shares are fully paid and, in accordance with the *Bank of Canada Act*, have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

6. Rest fund

The rest fund was established in accordance with the *Bank of Canada Act* and represents the general reserve of the Bank. The rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25.0 million in 1955.

7. Investments

This category includes Government of Canada treasury bills and bonds as well as other investments which are held under short-term foreign currency swap arrangements with the Exchange Fund Account of the Government of Canada as described in Note 11 (b).

The Bank typically holds its investments in treasury bills and bonds until maturity. The amortized book values of these investments approximate their par values. At the year-end, the average yield on the Bank's holdings of treasury bills which average three months to maturity was 3.9 per cent (3.6 per cent in 1996), while the average yield for bonds maturing within three years was 6.6 per cent (7.5 per cent in 1996), and for those maturing in over three years was 7.8 per cent (9.1 per cent in 1996).

8. Workforce adjustment

Following extensive reviews of its activities, the Bank has been streamlining a number of its operations resulting in an expected total reduction of about 650 of its staff positions. The position reductions are being accomplished through early retirements, voluntary departures and layoffs, and will be completed in 1998. To record termination costs, the Bank made provisions for $33 million in its accounts in 1995, $5 million in 1996 and $2.5 million in 1997. As at December 31, 1997, $31.4 million of the provision of $40.5 million has been paid.

9. Pension plan

The Bank sponsors a defined-benefit pension plan for its employees which is registered under the *Pension Benefits Standards Act*. The plan provides pension benefits based on length of service and rates of pay.

Actuarial valuations of the pension plan are made periodically by an independent actuary using the projected benefit method prorated on service. Market-related values are used to value pension plan assets. Based on the latest actuarial valuation as at December 31, 1995, the estimated present value of the accrued pension benefits as at December 31, 1997 was $423.6 million ($418.8 million in 1996), and the estimated market-related value of the pension plan assets was $508.8 million ($468.9 million in 1996).

Pension expense for 1997 was in a credit position of $1.3 million ($7.0 million expense in 1996). These amounts comprise the actuarially computed cost of pension benefits in respect of current year service and the amortization of past service costs and experience gains and losses. Amortization is calculated on a straight-line basis over the average remaining service life of the plan members, currently 12 years.

10. Legal matters

On September 3, 1985 and January 20, 1986 respectively, winding up orders were issued for the Canadian Commercial Bank and the Northland Bank. At those dates, the Bank of Canada had liquidity advances outstanding of $1.3 billion to the Canadian Commercial Bank and $0.5 billion to the Northland Bank.

At December 31, 1997, the residual balance of the advance outstanding was $1 million to the Northland Bank (unchanged from 1996). On the basis of the available information, it is the opinion of the Bank of Canada that it will be fully repaid from the proceeds of the liquidation of Northland Bank.

As a result of a court order issued in December 1997 concerning the Canadian Commercial Bank, the Bank of Canada received payment of the residual balance of the advance outstanding of $45.3 million together with interest of $43.9 million and out-of-pocket expenses of $4.0 million. This brings the total amount received by the Bank of Canada in satisfaction of its claim as a secured creditor of the Canadian Commercial Bank to $1.5 billion.

An amount of $13.8 million remaining to be paid to the Bank of Canada as part of the settlement with unsecured creditors of the Canadian Commercial Bank is reported under Other assets on the Balance sheet. The Bank of Canada expects to receive $10 million of this amount before the end of March 1998.

11. Commitments

(a) Bank premises

As at December 31, 1997, outstanding commitments under contracts for new computer systems and equipment purchases totalled $9.0 million ($9.1 million in 1996). These contracts call for payments over the next year.

(b) Foreign currency contracts

In the ordinary course of business, the Bank enters into commitments involving the purchase and sale of foreign currencies. In particular, the Bank enters into short-term foreign currency swap arrangements with the Exchange Fund Account (EFA) of the Government of Canada as part of its cash management operations within the Canadian banking system. These transactions, which are made with the concurrence of the Minister of Finance under a standing authority, involve the temporary acquisition by the Bank of foreign currency investments from the EFA. These investments are paid for in Canadian dollars at the prevailing exchange rate with a commitment to reverse the transaction at the same rate of exchange at a future date. The fair values of these investments are not materially different from their book values. At the year-end, the average yield for these investments was 6.1 per cent (6.1 per cent in 1996).

As well, the Bank of Canada is a participant in two foreign currency swap facilities with foreign central banks. The first, amounting to U.S.$2 billion, is with the U.S. Federal Reserve. The second, amounting to Can. $1 billion, is with the Banco de México. There were no drawings under either facility in 1996 or 1997.

A summary of outstanding commitments follows.

	1997	1996
	(in millions of dollars)	
Foreign currency contracts		
—purchases	95.8	75.4
—sales	3,573.8	4,080.5

As at December 31, 1997, outstanding foreign currency contracts included sale commitments of $3,476.2 million ($4,005.1 million in 1996) under swap arrangements with the EFA.

12. Year 2000

In April 1997, the Bank completed an internal Year 2000 impact assessment. Based on the results of this study, the Bank has developed a business plan to ensure that its critical internal systems will function properly, to co-ordinate testing with business partners of shared systems, and to ensure that appropriate contingency plans are in place in the event of disruption or system failure.

The plan is designed to ensure continued and proper functioning of the payments and settlement systems, monetary policy operations, bank note operations and debt-management services. A dedicated team has been formed to provide overall management, direction and support of the Year 2000 initiatives.

The Bank's plan is to have internal systems completed by the end of 1998. In 1999, the Bank will focus on testing shared systems with its business partners and developing the necessary contingency plans. The Bank estimates that the total cost of external and internal resources for this initiative will be approximately $14.0 million over the period from 1997 to 1999, with $2.0 million of this amount incurred in 1997.

BUSINESS DEVELOPMENT BANK OF CANADA

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimation which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

François Beaudoin
President and Chief Executive Officer

Alan B. Marquis
Vice-President, Finance
and Chief Financial Officer

AUDITORS' REPORT

TO THE MINISTER OF INDUSTRY

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 1998 and the statements of income, changes in shareholder's equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

The financial statements for the year ended March 31, 1997 were audited by the Auditor General of Canada and Raymond, Chabot, Martin, Paré, General Partnership who expressed an opinion thereon, without reservation in their report dated May 23, 1997.

KPMG
Chartered Accountants

Montréal, Canada
May 22, 1998

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1998	1997
Cash and short-term investments (Note 3)	498,999	426,946
Securities (Note 4)	58,106	117,475
	557,105	544,421
Loans, net of allowance for credit losses (Notes 5 and 7)	3,838,305	3,386,356
Venture capital investments, net of allowance for losses (Notes 6 and 7)	70,046	41,444
	3,908,351	3,427,800
Capital assets, net of accumulated depreciation	26,454	19,033
Other assets (Note 8)	96,079	38,551
	122,533	57,584
Total assets	4,587,989	4,029,805

LIABILITIES AND SHAREHOLDER'S EQUITY	1998	1997
Accounts payable and accrued liabilities	40,388	30,316
Accrued interest on borrowings	74,237	77,090
	114,625	107,406
Borrowings (Note 9)		
Short-term notes	2,462,973	1,206,631
Long-term notes	1,375,532	2,164,339
	3,838,505	3,370,970
Other liabilities (Note 10)	127,801	83,835
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	403,400	403,400
Retained earnings	103,658	64,194
	507,058	467,594
Total liabilities and shareholder's equity	4,587,989	4,029,805

The accompanying notes to financial statements are an integral part of this statement.

Approved by the Board:

TERRY B. GRIEVE
Director

FRANÇOIS BEAUDOIN
Director

STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Financial services		
Loans division		
Interest income	348,390	326,508
Interest expense (Note 12)	129,742	134,637
Net interest income	218,648	191,871
Provision for credit losses (Note 7)	51,300	39,041
Net interest income after provision for credit losses	167,348	152,830
Operating and administrative expenses (Note 13)	116,611	104,406
Income from loans division	50,737	48,424
Venture Capital division		
Investment income	11,364	16,385
Provision for losses on investments (Note 7)	1,920	2,393
Net investment income after provision for losses	9,444	13,992
Operating and administrative expenses (Note 13)	5,227	4,044
Income from Venture Capital division	4,217	9,948
Income from financial services	54,954	58,372
Consulting group		
Revenue	21,458	19,758
Operating and administrative expenses (Note 13)	30,938	34,410
Loss from consulting group	(9,480)	(14,652)
Net income (excluding parliamentary appropriation)	45,474	43,720
Parliamentary appropriation (Note 14)		6,948
Net income	45,474	50,668
Net income (loss) by division (excluding parliamentary appropriation)		
Loans	50,737	48,424
Venture capital	4,217	9,948
Consulting group	(9,480)	(14,652)
Net income (excluding parliamentary appropriation)	45,474	43,720

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Preferred shares (Note 11)		
Balance at beginning of year	100,000	50,000
Issue of preferred shares		50,000
Balance at end of year	100,000	100,000
Common shares (Note 11)		
Balance at beginning of year	303,400	303,400
Balance at end of year	303,400	303,400
Total share capital	403,400	403,400
Retained earnings		
Balance at beginning of year	64,194	16,928
Net income	45,474	50,668
Dividend on preferred shares	(6,010)	(3,402)
Balance at end of year	103,658	64,194
Total shareholder's equity	507,058	467,594

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Cash flows from operating activities		
Net income	45,474	50,668
Items not requiring an outlay of cash		
Provision for credit losses and losses on venture capital investments	53,220	41,434
Depreciation of capital assets	5,980	4,434
Change in interest receivable on loans	(1,225)	(368)
Change in accrued interest on borrowings	(2,853)	33,326
Net change in other assets and other liabilities	14,485	(15,458)
	115,081	114,036
Cash flows used in investing activities		
Disbursements for loans and venture capital investments	(1,181,992)	(923,765)
Repayments of loans and venture capital investments	649,446	598,096
Net acquisition of capital assets	(13,401)	(8,358)
	(545,947)	(334,027)
Cash flows from financing activities		
Issue of long-term notes	257,912	897,408
Repayment of long-term notes	(1,064,694)	(680,034)
Net change in short-term notes	1,256,342	108,441
Net change in securities	59,369	46,977
Proceeds from issue of preferred shares		50,000
Dividend declared	(6,010)	(3,402)
	502,919	419,390
Net increase in cash and short-term investments	72,053	199,399
Cash and short-term investments at beginning of year	426,946	227,547
Cash and short-term investments at end of year	498,999	426,946

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998
(in thousands of dollars except as otherwise indicated)

1. Act of incorporation, objectives and operations of the Corporation

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services tailored to meet the current needs of those businesses and to earn an appropriate return on investment capital, which is used to expand the loan portfolio.

The *Business Development Bank of Canada Act* expanded and extended the mandate of the Bank, enabling it to more effectively respond to the needs of Canada's small and medium-sized businesses. The Bank offers to Canadian companies services complementary to those of commercial financial institutions: financial services, venture capital, and consulting services.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. The *Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. Significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are netted against interest expense.

Loans and allowance for credit losses

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses.

The allowance for credit losses is maintained at a level considered adequate to absorb credit losses existing in the Bank's portfolio. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

A loan is considered to be impaired as a result of a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan is considered impaired, the carrying amount of the loan is reduced to its estimated realizable value by discounting the expected cash flows at the effective interest rate inherent in the loan, or if cash flows cannot be reasonably estimated, the fair value of any underlying security, net of expected realization costs, is used. The amount of initial impairment and any subsequent changes are recorded through the provision for credit losses as an adjustment to the specific allowance.

In addition to specific allowances against identified impaired loans, the Bank maintains a group allowance to cover impairment attributable to the deterioration of credit quality in the total loan portfolio for which specific allowances cannot yet be determined. Group allowances are estimated based upon historical loss experience and prevailing economic conditions.

Venture capital investments and allowance for losses

Venture capital investments are recorded at cost net of allowance for losses. The allowance for losses on these investments is established by a management review of individual investments.

Revenue recognition

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest ceases.

Any interest payments on impaired loans are applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under Loans and allowance for credit losses, the increase in present value attributable to the passage of time is reported as interest income.

Capital assets and depreciation

Capital assets are recorded at cost and depreciated over their maximum estimated useful lives, using the straight-line method as follows:

Computer equipment and software	3-7 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease maximum 15 years

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis with the related revenue or expense recognized over the life of the hedged position as an adjustment to interest expense.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Post-employment benefits

The Bank maintains a defined benefit pension plan for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits. The costs of the plan, which are included with salaries and staff benefits, are comprised of the cost of pension benefits in respect of current service, and the amortization over the expected average remaining service life of the employees of experience gains or losses in respect of the plan, and any adjustments arising from changes to the plan or the plan assumptions.

The Bank also provides post-employment benefits, other than pensions, consisting of life insurance and health care benefits for eligible retirees and specified benefits for eligible former employees, which are accrued annually based on actuarial valuations and are recorded in "Other liabilities".

3. Cash and short-term investments

Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits for terms less than 90 days.

4. Securities

	Term to maturity			
	Within 1 year	1 to 3 years	1998 Total	1997 Total
Debt securities issued or guaranteed by				
Canada				
Carrying value		26,830	26,830	42,036
Yield (%)		6.75	6.75	6.28
Fair value		27,694	27,694	42,791
Provinces				
Carrying value		26,276	26,276	65,414
Yield (%)		7.13	7.13	5.90
Fair value		27,483	27,483	67,921
Other				
Carrying value	5,000		5,000	10,025
Yield (%)	7.60		7.60	7.48
Fair value	5,000		5,000	10,285
Total				
Carrying value	5,000	53,106	58,106	117,475
Yield (%)	7.60	6.94	6.99	6.17
Fair value	5,000	55,177	60,177	120,997
Swap contracts				
Notional amount	5,000	52,001	57,001	115,346
Adjusted yield (%) [1]	5.00	4.94	4.95	3.25

[1] After adjusting for the effect of related derivatives

All securities held as at March 31 were issued in Canada at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into interest rate swaps to adjust the interest rate risk associated with the above securities.

5. Loans

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	1998		1997	
	$	%	$	%
Performing - floating	2,182,820	9.24	1,648,756	7.39
Performing - fixed				
Under one year	621,770	8.97	634,771	9.22
1 to 2 years	228,518	9.64	376,748	9.71
2 to 3 years	272,662	10.00	197,546	10.07
3 to 4 years	182,272	9.76	264,325	10.33
4 to 5 years	176,488	9.29	163,947	9.89
Over 5 years	179,018	9.44	92,617	10.11
Performing	3,843,548		3,378,710	
Impaired	228,806		232,123	
Total loans	4,072,354		3,610,833	
Allowance for credit losses				
Group/Performing	(149,342)		(135,754)	
Impaired	(84,707)		(88,723)	
	(234,049)		(224,477)	
Loans, net of allowance for credit losses	3,838,305		3,386,356	

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or group of clients.

Geographic distribution	1998		1997	
	$	%	$	%
Newfoundland	130,345	3.2	109,130	3.0
Prince Edward Island	35,880	0.9	30,818	0.9
Nova Scotia	88,875	2.2	82,820	2.3
New Brunswick	145,752	3.6	130,772	3.6
Quebec	1,532,511	37.6	1,343,169	37.2
Ontario	1,038,119	25.5	884,281	24.5
Manitoba	98,251	2.4	86,468	2.4
Saskatchewan	95,917	2.4	88,323	2.5
Alberta	253,386	6.2	224,420	6.2
British Columbia	592,095	14.5	571,047	15.8
Yukon	31,203	0.8	29,409	0.8
Northwest Territories	30,020	0.7	30,176	0.8
Total loans outstanding	4,072,354	100.0	3,610,833	100.0

6. Venture capital investments

The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual industry sector or client.

Industry sector	1998	1997
Computer	24,833	13,569
Communications	2,420	2,270
Electronics	11,304	7,643
Biotechnology/ Medical/Health	21,960	10,415
Industrial	2,793	5,061
Consumer-related	3,189	3,489
Other	14,356	12,489
	80,855	54,936
Allowance for losses on investments	(10,809)	(13,492)
Venture capital investments, net of allowance for losses on investments	70,046	41,444

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

	1998	1997
Common shares	46,046	31,907
Preferred shares	22,092	12,718
Debentures	12,717	10,311
	80,855	54,936
Allowance for losses on investments	(10,809)	(13,492)
Venture capital investments, net of allowance for losses on investments	70,046	41,444

7. Allowance for credit losses and losses on venture capital investments

The following table summarizes the changes in the allowance for credit losses and losses on venture capital investments as at March 31.

	1998			1997		
	Loans	Venture capital investments	Total	Loans	Venture capital investments	Total
Balance at beginning of year	224,477	13,492	237,969	217,965	12,627	230,592
Write-offs	(39,014)	(4,603)	(43,617)	(28,629)	(1,529)	(30,158)
Interest income due to accretion	(4,331)		(4,331)	(6,154)		(6,154)
Recoveries	1,617		1,617	2,254	1	2,255
	182,749	8,889	191,638	185,436	11,099	196,535
Provision for credit losses and losses on venture capital investments	51,300	1,920	53,220	39,041	2,393	41,434
Balance at end of year	234,049	10,809	244,858	224,477	13,492	237,969

8. Other assets

	1998	1997
Accrued interest and foreign currency adjustments on derivative financial instruments	88,438	28,607
Unamortized debt issue expenses on long-term notes	479	2,048
Other	7,162	7,896
	96,079	38,551

9. Borrowings

The Bank issues debt instruments in world capital markets to fund its loan portfolio All foreign exchange risk is hedged through the use of derivatives. In addition, where appropriate, the Bank enters into interest rate, cross currency interest rate and equity-linked swap contracts to hedge the related interest rate and equity market risks. The table below shows the outstanding notes as at March 31.

Maturity date	Effective rate	Currency	Nominal amount	1998	1997
	%		$	$	$
Short-term notes					
1998	2.51-4.53	Swiss francs	75,000		
		DM	64,500		
		US dollars	292,300		
		GB pounds	10,000		
		HK dollars	25,000		
		THAI Baht	40,000		
		CDN dollars	655,574		
					1,206,631
1999	3.74-5.11	DM	318,000		
		US dollars	498,000		
		GB pounds	55,000		
		CDN dollars	1,404,370		
				2,462,973	
Total short-term notes				2,462,973	1,206,631

Maturity date	Nominal rate	Effective rate*	Currency	Principal amount	1998	1997
	%	%		$	$	$
Long-term notes						
Within a year						
1998		2.77-6.00	US dollars	182,673		
			CDN dollars	420,000		
						669,036
1999		1.80-7.00	Yen	2,256,031		
			US dollars	56,500		
			CDN dollars	388,500		
					471,286	
Longer than a year						
June 19, 1998	7.45	2.83				16,500
June 30, 1998	4.15	3.11	Yen	1,690,000		20,517
July 25, 1998	7.00	2.90				26,000
July 29, 1998	6.00	9.27	Yen	1,100,023		18,717
August 27, 1998	4.50	2.86				140,000
October 6, 1998	7.00	7.00				125,000
October 15, 1998	Zero coupon	2.79	US dollars	35,000		46,830
November 6, 1998	Zero coupon	2.80				11,000
November 25, 1998	8.78	1.57				50,000
March 5, 1999	Zero coupon	2.78	US dollars	10,000		13,680
April 8, 1999	Zero coupon	4.46[1]			10,000	10,000
May 21, 1999	6.38	6.83	US dollars	100,000	141,980	136,650
June 4, 1999	6.00	4.59[2]			15,000	
July 15, 1999	4.26	4.51[3]			5,000	5,000
September 17, 1999	5.40	4.93[4]	US dollars	3,000	4,428	
December 1, 1999	6.00	4.69[5]			10,000	
January 14, 2000	Zero coupon	4.89[6]	US dollars	10,000	12,619	
March 16, 2000	Zero coupon	4.51[1]			25,000	25,000
June 19, 2000	6.00	5.38[7]			15,000	
September 25, 2000	7.43	7.43			75,000	75,000
November 24, 2000	6.89	4.50[8]	US dollars	12,024	17,071	21,809
November 6, 2001	13.99	4.70	US dollars	105,000	149,079	143,600
June 24, 2002	Zero coupon	5.13[9]			23,000	16,000
October 4, 2002	Zero coupon	4.68[10]			12,000	
July 8, 2003	Zero coupon	5.37[1]			56,261	64,000
July 11, 2003	Zero coupon	4.63[10]			20,000	
August 27, 2003	Zero coupon	4.29[10]			14,000	
June 27, 2005	8.00	4.57[11]			20,000	20,000
August 15, 2005	Zero coupon	4.72[12]			33,322	25,000
October 18, 2005	8.52	3.04				67,000
October 18, 2005	8.33	4.63				23,000
November 2, 2005	8.00	4.77[13]			25,000	25,000
December 12, 2005	7.73	4.74[14]			20,000	20,000
December 12, 2005	7.76	4.54[14]			58,000	58,000
January 5, 2006	8.26	3.71				115,000
March 1, 2006	7.55	5.53				60,000
April 19, 2006	8.13	6.20[15]			25,000	25,000
December 2, 2006	6.40	4.63			26,486	35,000
August 8, 2007	6.40	4.68[16]			5,000	
August 28, 2007	6.23	5.04[17]			31,000	
October 20, 2007	6.00	4.51[18]			30,000	
March 18, 2008	8.35	2.90				32,000
June 17, 2008	7.10	4.50[19]			25,000	25,000
Total long-term notes					1,375,532	2,164,339
Current portion of long-term notes with maturity date longer than a year					5,616	13,764

* The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 16.

(1) BDC will pay the nominal amount at maturity plus variable interest related to the performance of the S&P 500 Index. The noteholder may elect to receive the variable interest from time to time prior to maturity date.

(2) Interest is payable annually. BDC may, at its option, on the initial maturity date and each extended maturity date thereafter on which the note is outstanding, extend the maturity date by one year to the next extended maturity date at predetermined rates up to June 4, 2007.

(3) Interest is compounded quarterly and payable at redemption or maturity date. BDC has the option to redeem the note annually prior to maturity beginning October 17, 1997.

(4) The holder has the option to redeem this note prior to maturity date. Notice of early redemption may be given at any time. The principal amount is linked to the performance of the GSCI Excess Return Index.

(5) Interest is payable semi-annually. BDC may, at its option on the initial maturity date and each extended maturity date thereafter on which the note is outstanding, extend the maturity date by one year to the next extended maturity date at predetermined rates up to December 1, 2006.

(6) The payment of principal at maturity is linked to the performance of the GSCI Total Return Index.

(7) Interest is payable annually. BDC may, at its option, on the initial maturity date and each extended maturity date thereafter on which the note is outstanding, extend the maturity date by one year to the next maturity date at predetermined rates up to June 19, 2007.

(8) Principal and interest amount are payable in uneven monthly instalments to maturity.

(9) BDC will pay the nominal amount at maturity plus a variable interest related to the performance of the NIKKEI 225 Index. The noteholder may elect to receive the variable interest from time to time prior to maturity date.

(10) BDC will pay the nominal amount at maturity plus a variable interest related to the performance of the shares of 20 major Japanese companies. The noteholder may elect to receive the variable interest from time to time prior to maturity date.

(11) Interest is compounded semi-annually and payable at maturity. Annually, BDC has the right to redeem the note prior to maturity starting June 27, 1998.

(12) BDC will pay the nominal amount at maturity plus variable interest related to the performance of the S&P 500 Index and the TSE 35 Index. The noteholder may elect to receive the variable interest from time to time prior to maturity date.

(13) BDC may, at its option, redeem the note annually on each coupon date at a predetermined rate starting November 2, 1998.

(14) Interest is compounded semi-annually and payable on redemption date or at maturity. BDC has the option to redeem the note starting December 12, 2000.

(15) Interest is compounded semi-annually and payable on the call date or at maturity. BDC may, at its option, call the note semi-annually on each coupon date, starting April 19, 1999.

(16) Interest is compounded semi-annually and payable at redemption or maturity date. BDC has the option to redeem the note annually prior to maturity beginning August 8, 2001.

(17) Interest is compounded semi-annually and payable at redemption or maturity date. BDC has the option to redeem the note annually prior to maturity beginning August 28, 2000.

(18) Interest is compounded semi-annually and payable at redemption or maturity date. BDC has the option to redeem the note annually prior to maturity beginning October 20, 1999.

(19) Interest is payable annually. BDC may, at its option, redeem the note in whole on each coupon date, starting June 17, 1998.

The preceding table includes $1,150,532 in 1998 and $1,939,339 in 1997 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

As at March 31, 1998 the payment requirements and maturities of long-term notes are as follows:

1999	476,902
2000	230,586
2001	94,896
2002	149,079
2003	35,000
2004	90,261
2005	
2006	156,322
2007	51,486
2008	66,000
2009	25,000
	1,375,532

10. Other liabilities

	1998	1997
Deferred income	4,195	3,948
Accrued post-employment benefits	57,994	56,327
Unamortized premiums, accrued interest and foreign currency adjustments on derivative financial instruments	44,085	4,030
Other	21,527	19,530
	127,801	83,835

11. Share capital and statutory limitations

Share capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	1998		1997	
	Number of shares	Amount	Number of shares	Amount
Preferred shares				
Class A				
—Series 1	500,000	50,000	500,000	50,000
—Series 2	500,000	50,000	500,000	50,000
		100,000		100,000
Common shares	3,034,000	303,400	3,034,000	303,400
Total outstanding share capital		403,400		403,400

Class A Preferred Shares, Series 1 have a fixed, preferential and cumulative dividend of 6.805% per annum, commencing April 1996 until March 31, 1999, and thereafter, to March 31, 2002 and for each subsequent three-year period, the rate shall be adjusted as at the beginning of the period, so as to equal the consolidated revenue fund's three-year term lending rate published by the Minister of Finance for the month of March last preceding the period plus 3/8^{ths} of 1%. Such shares are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share, Series 1. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day.

Class A Preferred Shares, Series 2 have a fixed, preferential and cumulative dividend of 5.215% per annum, commencing April 1997 until March 31, 2000, and thereafter, to March 31, 2003 and for each subsequent three-year period, the rate shall be adjusted as at the beginning of the period, so as to equal the consolidated revenue fund's three-year term lending rate published by the Minister of Finance for the month of March last preceding the period plus 3/8^{ths} of 1%. Such shares are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share, Series 2. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day.

On July 13, 1995, the existing capital of $590,000 paid in by Canada was converted into 5,900,000 common shares of the Business Development Bank of Canada on the basis of one common share for each $100 (one hundred dollars) of capital paid in by Canada.

Effective March 31, 1996, the Board of Directors, with the approval of the Governor in Council, authorized the cancellation of 2,866,000 of those common shares and a corresponding reduction of $286,600 in paid-in capital, thus eliminating $286,600 of the accumulated deficit.

Statutory limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $1.5 billion.

12. Interest expense

	1998	1997
Interest on borrowings	151,176	154,731
Security and short-term investment income	(21,434)	(20,094)
	129,742	134,637

13. Operating and administrative expenses

	1998			1997		
	Financial services		Consulting group	Financial services		Consulting group
	Loans division	Venture capital division		Loans division	Venture capital division	
Salaries and staff benefits	59,839	2,999	20,538	50,119	2,223	22,104
Premises and equipment	15,559	686	2,516	14,516	418	3,093
Other expenses	41,213	1,542	7,884	39,771	1,403	9,213
	116,611	5,227	30,938	104,406	4,044	34,410

14. Parliamentary appropriation

During the six-month period, from April to September 1996, Parliamentary appropriations totalling $6,948 were received by the Bank. In September 1996, the Bank decided to fund the operations of the Consulting Group entirely from internal resources. Accordingly, with effect from that date, BDC will no longer receive funding from the Government of Canada.

15. Fair value of financial instruments

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties, however many of the financial instruments lack an available trading market. Therefore, fair values are estimated using present value and other valuation techniques which are extensively affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	1998			1997		
	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Balance sheet						
Assets						
Cash and short-term investments	498,999	498,999		426,946	426,946	
Securities (Note 4)	58,106	60,177	2,071	117,475	120,997	3,522
Loans	3,838,305	3,857,678	19,373	3,386,356	3,418,283	31,927
Venture capital investments	70,046	104,179	34,133	41,444	75,867	34,423
Other assets	7,162	7,162		7,896	7,896	
	4,472,618	4,528,195	55,577	3,980,117	4,049,989	69,872
Liabilities						
Accounts payable and accrued liabilities	40,388	40,388		30,316	30,316	
Accrued interest on borrowings	74,237	74,237		77,090	77,090	
Short-term notes	2,462,973	2,462,973		1,206,631	1,206,631	
Long-term notes	1,375,532	1,459,131	83,599	2,164,339	2,322,489	158,150
	3,953,130	4,036,729	83,599	3,478,376	3,636,526	158,150
			(28,022)			(88,278)
Off-balance sheet						
Derivative financial instruments (Note 16)	(4,554)	50,826	55,380	(41,953)	80,408	122,361
Total			27,358			34,083

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value—The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities—The fair value of securities is provided in Note 4 to the financial statements.

Loans—For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under Loans and allowance for credit losses.

Venture capital investments—For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes—The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments—The fair value of derivative financial instruments is provided in Note 16 to the financial statements.

16. Derivative financial instruments

The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

Depending on the circumstances, these transactions may include interest rate swap contracts, forward rate agreements, interest rate option contracts, cross-currency interest rate swap contracts, currency swap contracts, foreign exchange forward contracts, foreign currency option contracts, and equity-linked contracts.

Interest rate swap contracts

Interest rate swap contracts are agreements between two parties to exchange interest flows on a specific notional amount for a predetermined period, based on agreed fixed and floating rates.

Forward rate agreements

Forward rate agreements are contracts negotiated between two parties to buy or sell financial instruments at future dates and at specified rates.

Interest rate option contracts

Interest rate option contracts are agreements granting the purchaser the right to either purchase from or sell to the writer of the option a specified financial instrument on agreed terms. In consideration of the interest rate risk, the seller receives a premium from the purchaser.

Cross-currency interest rate swap contracts

Cross-currency interest rate swap contracts are agreements between two parties to exchange both currencies and interest rates on a specific notional amount for a predetermined period.

Currency swap contracts

Currency swap contracts are agreements between two parties to exchange currencies at specific prices and at predetermined dates.

Foreign exchange forward contracts

Foreign exchange forward contracts are commitments to exchange two currencies at a predetermined date and at a rate agreed upon by the parties at the transaction date.

Foreign currency option contracts

Foreign currency option contracts are agreements granting the right to buy and sell specified amounts of foreign currencies at fixed prices on specified future dates.

Equity-linked contracts

Equity-linked contracts are agreements to pay or receive cash flows based on the increase or decrease in an underlying equity index.

The following table represents the notional amount and replacement cost of the derivative financial instruments as at March 31.

	1998		1997	
	Notional amount*	Replacement cost**	Notional amount*	Replacement cost**
Interest rate contracts				
Interest rate swap and equity-linked swap contracts	1,383,973	54,759	2,638,256	73,138
Forward rate agreements	355,000	92	1,839,000	599
Interest rate option contracts				
Cross-currency interest rate swap contracts	422,571	58,188	772,087	73,831
Foreign exchange contracts				
Currency swap contracts				
Foreign exchange forward contracts	1,483,982	10,368	730,160	10,530
Foreign currency option contracts				
Total	3,645,526	123,407	5,979,503	158,098
Less impact of master netting agreements		29,036		46,552
Total	3,645,526	94,371	5,979,503	111,546

* The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.
** Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty credit risk exposure	Counterparty ratings					
	AAA	AA+	AA	AA-	A+	A
Gross positive replacement cost	58,757	7,529	5,353	51,598	105	65
Impact of master netting agreements		(4,560)	(3,727)	(20,644)	(105)	
Replacement cost (after netting agreements)	58,757	2,969	1,626	30,954		65
Replacement cost (after netting agreements) 1997	59,671	3,306	7,521	40,707	322	19
Number of counterparties						
March 31, 1998	4	4	3	6	1	1
March 31, 1997	8	1	4	11	1	1

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	1998			1997		
	Positive	Negative	Net amount	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap and equity-linked swap contracts	54,759	49,082	5,677	73,138	42,492	30,646
Forward rate agreements	92	15	77	599	813	(214)
Interest rate option contracts						
Cross-currency interest rate swap contracts	58,188	6,567	51,621	73,831	23,365	50,466
Foreign exchange contracts						
Currency swap contracts						
Foreign exchange forward contracts	10,368	16,917	(6,549)	10,530	11,020	(490)
Foreign currency option contracts						
Total fair value	123,407	72,581	50,826	158,098	77,690	80,408
Less impact of master netting agreements	29,036	29,036		46,552	46,552	
Total	94,371	43,545	50,826	111,546	31,138	80,408

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

The following table summarizes the repricing or maturity dates on derivative financial instruments and weighted interest rates paid and received on interest rate contracts:

	Term to maturity or repricing								1998	1997
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	Notional amount	Notional amount
Interest rate contracts										
Interest rate swap contracts										
$CDN payable - fixed	138,017	5.21	257,911	5.63	23,000	5.13	3,514	6.40	422,442	751,672
$CDN receivable - fixed	227,500	5.26	45,000	5.81			269,000	7.22	541,500	1,137,500
$US receivable - fixed			16,989	6.89					16,989	83,774
Basis swaps					105,000	n.a.			105,000	155,000
Equity-linked and other contracts	87,478	n.a.	84,564	n.a.	35,000	n.a.	91,000	n.a.	298,042	510,310
	452,995		404,464		163,000		363,514		1,383,973	2,638,256
Forward rate agreements	355,000	n.a.							355,000	1,839,000
Cross-currency interest rate swap contracts	106,768	n.a.	172,203	n.a.	143,600	n.a.			422,571	772,087
Total interest rate contracts	914,763		576,667		306,600		363,514		2,161,544	5,249,343
Foreign exchange contracts										
Foreign exchange forward contracts	1,483,982	n.a.							1,483,982	730,160
Total foreign exchange contracts	1,483,982								1,483,982	730,160
Total	2,398,745		576,667		306,600		363,514		3,645,526	5,979,503

n.a. - not applicable as weighted rates are not significant.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into Canadian dollar equivalent.

17. Contingent liabilities and commitments

As at March 31, 1998:

(a) various legal proceedings arising from the normal course of business are pending against the Bank. Management considers that the aggregate liability resulting from these proceedings will not be material.

(b) the undisbursed amounts on loans authorized total $389,057. These loan commitments are for an average period of three months ($110,237 in fixed, $278,820 in floating). The effective interest rates on these loan commitments vary from 6.55% to 18.50%. The undisbursed amounts on venture capital investments authorized total $43,817.

(c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

1999	11,054
2000	10,206
2001	9,841
2002	9,468
2003	8,826
2004-2020	112,094
	161,489

18. Employee pension benefits

Based on the latest actuarial valuation prepared as at December 31, 1997, the present value of the accrued pension benefits and the actuarial value of the assets of the Pension Plan for the Employees amounted to $283,661 and $356,309, respectively. Employee pension benefits credits in the amount of $5,018 are included in the Statement of Income for the year ended March 31, 1998 ($1,209 expense in 1997). The cumulative difference between the amounts expensed and the funding contributions is recorded in the Balance Sheet under "Other liabilities".

19. Cultural Industries Development Fund

The Bank administers on behalf of the Department of Canadian Heritage (DOCH), the Cultural Industries Development Fund (CIDF). The CIDF was developed to provide, under certain conditions, flexible financing and management counselling to businesses involved in the Canadian cultural industries. As at March 31, 1998, a cumulative amount of $31,809 was received by the Fund, part of which covered the administration and delivery of the program. This fund is not accounted for in the financial statements of the Bank.

20. Related party transactions

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

21. Comparative financial data

Certain comparative figures have been reclassified to conform with the presentation adopted in 1998.

CANADA COUNCIL

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Canada Council for the Arts and all the information in this annual report are the responsibility of Management and have been approved by the Council.

The financial statements have been prepared by Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Canada Council for the Arts maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the organization's assets are appropriately accounted for and adequately safeguarded.

The Council is responsible for ensuring that Management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Council carries out this responsibility principally through its Audit and Finance Committee.

The Audit and Finance Committee is appointed by the Council and its members are Council members. The Committee meets periodically with Management, as well as the external auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditor's report. The Committee reports its findings to Council for consideration when approving the financial statements.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Canada Council for the Arts, and for issuing his report thereon.

Approved by Management:

Director
Shirley Thomson

Secretary-Treasurer
Camille Guérin

AUDITOR'S REPORT

TO THE CANADA COUNCIL AND
THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canada Council as at March 31, 1998 and the statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 29, 1998

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997 (Restated Note 3)
Current assets		
Cash and short-term deposits (Note 4)	11,068	14,227
Accrued investment income	3,298	874
Accounts receivable	1,153	893
Deferred charges	1,541	1,252
	17,060	17,246
Investments (Note 5)	235,165	221,092
Works of art and musical instruments (Note 6)	18,496	18,605
Other capital assets, net (Note 7)	2,199	2,433
Total assets	272,920	259,376

LIABILITIES	1998	1997 (Restated Note 3)
Current liabilities		
Grants payable	19,328	16,593
Accounts payable and accrued liabilities (Note 8)	2,660	3,377
	21,988	19,970
Deferred credits (Note 9)	3,493	4,122
Deferred contributions (Note 10)	4,972	3,964
Total liabilities	30,453	28,056
PRIVATE ENDOWMENTS (Note 11)	63,311	62,281
EQUITY		
Endowment		
Original contribution	50,000	50,000
Appropriated surplus	96,770	94,770
	146,770	144,770
Surplus		
Works of art and musical instruments	18,496	18,605
Operating	13,890	5,664
	32,386	24,269
Total equity	179,156	169,039
Total liabilities, private endowments and equity	272,920	259,376

See accompanying notes to the financial statements.

On behalf of the Council:

JEAN-LOUIS ROUX
Chair

FRANÇOIS COLBERT
Vice-chair

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Revenue		
Parliamentary appropriation (Note 12)	113,968	91,093
Net investment income (Note 13)	14,485	14,982
Other	827	846
Total revenue	129,280	106,921
Expenses		
Programs		
Grants (Schedule 2)	103,866	87,083
Administration (Schedule 3)	5,519	6,479
Services	1,360	1,658
	110,745	95,220
Canadian Commission for UNESCO (Note 14)	929	1,304
General administration (Schedule 3)	6,917	7,619
Net Art Bank costs (Note 14)	463	603
Total expenses	119,054	104,746
Excess of revenue over expenses (Note 12) before the following	10,226	2,175
Restructuring expenses (Note 15)		(1,312)
Net gains related to the new investment strategy, reinvested (Note 13)		33,508
Excess of revenue over expenses for the year	10,226	34,371

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Endowment		
Original contribution	50,000	50,000
Appropriated surplus		
Balance at beginning of the year	94,770	60,199
Appropriated from surplus during the year	2,000	34,571
Balance at the end of the year	96,770	94,770
Balance of Endowment at end of the year	146,770	144,770
Surplus		
Works of art and musical instruments		
Balance at beginning of year as previously stated	17,676	17,876
Transfer of musical instruments from Special Funds' equity (Note 3)	929	929
Balance at beginning of the year, as restated	18,605	18,805
Net disposals and adjustments during the year	(109)	(200)
Balance at end of the year	18,496	18,605
Operating		
Balance at beginning of the year	5,664	5,664
Excess of revenue over expenses for the year	10,226	34,371
Net disposals and adjustments during the year		200
Appropriated during the year	(2,000)	(34,571)
Balance at end of the year	13,890	5,664
Balance of surplus at end of the year	32,386	24,269

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Operating activities		
Excess of revenue over expenses for the year	10,226	34,371
Items not affecting cash		
Amortization—other capital assets	710	1,099
Amortization—other capital assets—Art Bank		117
Net gains related to new investment strategy, reinvested		(33,508)
	10,936	2,079
Change in non-cash operating assets and liabilities	(574)	4,870
Cash provided by operating activities	10,362	6,949
Financing and investing activities		
Endowment contributions received	263	
Investment income credited to private endowments	766	11,218
Net gains related to new investment strategy		33,508
Net increase in investments	(14,073)	(36,566)
Acquisition of other capital assets	(477)	
Cash applied to investment activities	(13,521)	8,160
Increase (decrease) in cash	(3,159)	15,109
Cash position at beginning of the year	14,227	(882)
Cash position at end of the year	11,068	14,227

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Authority, operations and objectives

The Canada Council, established by the *Canada Council Act* in 1957, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with Section 85 of the *Financial Administration Act*, the Canada Council is exempt from Part X of this Act. The Canada Council is a national organization whose objectives are to foster and promote the study, enjoyment and production of works in the arts. These objectives are achieved through the giving of grants to professional Canadian artists and arts organizations. The Council has been assigned the functions and duties for the Canadian Commission for UNESCO.

2. Significant accounting policies

The most significant accounting policies are:

(a) Investments

Investments are recorded at cost and are written down to market value when the loss in value is considered to be other than a temporary decline.

(b) Capital assets

Equipment and leasehold improvements are recorded at cost and amortized over their estimated useful lives using the straight-line method as follows:

Office equipment	5 years
Leasehold improvements	term of the lease

Works of art and musical instruments are capitalized at cost and no amortization is recorded.

(c) Employee termination benefits

Employees are entitled to specific termination benefits as provided for under the Council's policy and conditions of employment. The cost of these benefits is expensed in the year in which employees become eligible.

(d) Parliamentary appropriation

Parliamentary appropriation is recognized as revenue in the year for which it is approved by Parliament. Parliamentary appropriations intended for future years received or approved by Parliament before the end of the year are recorded as deferred parliamentary appropriations.

(e) Contributions

The Canada Council follows the deferred contribution method of accounting for contributions.

Annual contributions are recognized as revenue in the year received or in the year the funds are committed to the Canada Council if the amount can be reasonably estimated and collection is reasonably assured.

Unrestricted net interest and dividends, unrestricted net realized capital gains or losses, Art Bank rental fees and other revenues are recorded as revenue in the year they are earned. Externally restricted investment income is recorded as deferred contributions and is recognized as revenue in the year in which the related expenses are incurred. Capital gains in the Killam Endowments are restricted by the donor and are added directly to the endowment.

Endowment contributions are recognized as direct increases to private endowments.

Contributions received in a form other than cash are recorded at their fair value at the date they are received by the Canada Council.

(f) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan. This contribution represents the total pension liability of the Council. The Council is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(g) Post retirement benefits

Retired employees are entitled to participate in the Council's dental, medical and life insurance benefit programs. The Council expenses a maximum one-half of the cost of the medical benefits for retired employees on a pay-as-you-go basis. The costs for the remaining benefits are borne entirely by the retired employees.

(h) Grants

Grants are recorded as an expense in the year for which they are approved by Council. Cancelled grants and refunds of grants approved in previous years are shown as revenue.

3. Change in accounting policy and financial statement presentation

In 1998, the Council changed its method of accounting for restricted contributions and related investment income. As disclosed in note 2 (e), restricted contributions and related investment income are recorded as deferred contributions and recognized as revenue in the year in which the related expenses are incurred. Previously, all contributions and revenue were recorded when received or earned. This change in accounting policy has been applied retroactively and the financial statements of the prior period have been restated. The allocation of the 1997 investment income is described in note 13.

The effect of this change is as follows:

	1998	1997
	(in thousands of dollars)	
Effect on operations		
Decrease in investment income	1,753	11,360
Decrease in other income	21	
Decrease in excess of revenues over expenses	1,774	11,360
Effect on balance sheet		
Increase in private endowments	766	11,218
Increase in deferred contributions	1,008	142
(Decrease) in surplus at end of year	(1,774)	(11,360)

In 1998, the Council also changed the financial statement presentation from separate disclosure of endowment and private endowments to a combined basis. The equity of the private endowments, previously presented as equity in the Special Funds' balance sheet as at April 1, 1996, is now allocated to private endowments, deferred contributions and equity.

The impact of these changes has increased opening equity as at April 1, 1996 by $929,000.

4. Cash and short-term deposits

The Canada Council invests temporary surplus cash in a short-term pooled fund managed by Lancaster Investment Counsel. All instruments held in the pooled fund are rated R1(low) or A(low) or better by a recognized bond rating agency. Except for federal and federally guaranteed instruments, no more than 10% of the short-term portfolio is invested with one issuer.

The net book value of short-term deposits as at March 31, 1998 and March 31, 1997 approximated the market value.

5. Investments

	1998		1997	
	Cost	Market value	Cost	Market value
	(in thousands of dollars)			
Canada Council and other endowments				
Pooled funds	148,900	188,990	145,678	153,135
Bonds	29,658	30,188	28,468	28,354
Equities				
Mortgages	35	35	396	396
	178,593	219,213	174,542	181,885
Killam Endowments				
Bonds	31,446	31,895	21,872	21,668
Pooled funds	14,586	18,213	14,200	14,649
Equities	10,519	12,311	10,419	11,023
Mortgages	21	21	59	59
	56,572	62,440	46,550	47,399
Total investments	235,165	281,653	221,092	229,284

Pooled funds are in units of two global equity pooled funds, 49.8% in the Brinson Global Equity with Canada Fund for Canadian Charitable Trusts and 50.2% in the Templeton Master Trust—Series 2.

All bonds are rated "BBB" or better by a recognized bond rating agency. Except for federal and federally guaranteed instruments, no more than 10% of a manager's portfolio may be invested with one issuer. As at March 31, 1998, the Canada Council and other endowments and the Killam endowments have invested $27,428,000 and $29,083,000 in Government of Canada bonds with an average duration of five and one half years.

The investment in equities represents a diversified Canadian common equity portfolio made up of companies listed on the Toronto Stock Exchange 300 Index.

6. Works of art and musical instruments

The Canada Council Art Bank has the largest number of contemporary Canadian works of art in Canada. It includes 18,000 paintings, sculptures, drawings, photographs and prints by over 2,500 artists. The Canada Council Art Bank rents the art works to interested parties and presently has about 7,000 works on rental to federal government departments and agencies, associations, hospitals, schools, municipalities and private corporations.

The Canada Council created the Musical Instrument Bank in 1985 and it presently owns two quality musical instruments. The first instrument, a Tecchler cello, was acquired through the fundraising efforts of W.I.M. Turner and cellist Denis Brott. The Brott-Turner-Tecchler cello is currently on loan to Denis Brott for the duration of his career. The second, the Windsor-Weinstein Stradivarius violin, was acquired through the generous transfer of the instrument to the Canada Council by the Ontario Heritage Foundation. The Windsor-Weinstein Stradivarius is currently on loan to James Ehnes for a period of three years.

7. Other capital assets

			1998	1997
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Office equipment	3,097	2,729	368	330
Leasehold improvements	4,473	2,642	1,831	2,103
	7,570	5,371	2,199	2,433

8. Accounts payable and accrued liabilities

	1998	1997
	(in thousands of dollars)	
Accrued liabilities	692	641
Accrued termination benefits	664	749
Accounts payable	432	802
Accrued restructuring expenses	383	651
Accrued vacation pay	299	306
Accrued payroll expenses	190	228
	2,660	3,377

9. Deferred credits

	1998	1997
	(in thousands of dollars)	
Deferred lease inducement	2,994	3,542
Deferred rent	120	240
Art-Bank—rentals of works of art	349	298
Other	30	42
	3,493	4,122

The deferred lease inducement represents an inducement payment received from the landlord and is being amortized against rental accommodation expense over the term of the lease. Deferred rent represents an amount received from another federal government agency to cover the rental of space for the next year.

10. Deferred contributions

Deferred contributions represent unspent externally restricted investment income on endowments received by way of bequest and donations that have been restricted for specific purposes. The funds of the endowments have been included with the Canada Council's investment portfolio and a proportionate share for each endowment is calculated based upon the market value of the investment portfolio at the time the endowment was received. The externally restricted net income includes investment income calculated annually as the proportionate share of each endowment applied to the interest, dividend and net capital gain or loss of the Canada Council's investment portfolio for the year plus any other sources of revenue received by each endowment. Grants and administration expenses are the actual expenses incurred in order to meet the specific purpose for each endowment.

	Balance at beginning of year	Externally restricted net income	Grants and administration expenses	Balance at end of year
	(in thousands of dollars)			
Deferred contributions				
Killam Fellowships and Prizes	192	2,669	1,934	927
Molson prize	121	166	8	279
Lynch-Staunton	282	171	86	367
John G. Diefenbaker	20	113	77	56
Joseph S. Stauffer	61	28	8	81
Coburn fellowships	67	76	40	103
Jean A. Chalmers	10	63	51	22
Vida Peene		50	35	15
Frances Elizabeth and J.P Barwick	12	8	26	(6)
Japan-Canada Literary Prize	8	21	2	27
York Wilson Prize		18	11	7
Duke and Duchess of York Prize	20	11	8	23
John Stephen Hirsch	39	9	14	34
John B.C. Watkins	185	15	5	195
Ronald J. Thom Award	9	8	12	5
Jean M. Beaudet	2	1		3
Petro-Canada	46	4	10	40
Glenn Gould Prize Fund	890	61	5	946
Japan Canada Fund	1,504	49	223	1,330
Visiting Foreign Artists Program	16	1		17
Canadian Commission for UNESCO	480	116	95	501
	3,964	3,658	2,650	4,972

11. Private endowments

Private endowments consist of the restricted donations received by the Council. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. Also, the Council may internally restrict to private endowments a portion of the income earned. In addition, the Killam bequests require that all net capital gains or losses be applied to the principal.

Changes in private endowments are as follows:

	1998	1997
	(in thousands of dollars)	
Balance, beginning of year as restated	62,281	51,063
Add donations received during the year		
York Wilson Prize	250	
Other	14	
	264	
Add investment income credited to private endowments	766	9,612
Add investment income of the Special Funds internally restricted to private endowments		1,606
	766	11,218
Balance at end of year (Schedule 1)	63,311	62,281

12. Parliamentary appropriation

The government approved additional funding for the Canada Council of $25 million for this year and for each of the next four years. During the year, Council recognized the $25 million as revenue and expensed approximately $18 million in grants to individual artists and arts organizations. The remaining balance is to be expensed during the next year.

13. Net investment income

	1998	1997
	(in thousands of dollars)	
Net gains on disposal of investments	6,188	50,943
Interest and dividends	11,675	9,839
Transferred to deferred contributions	(987)	(56)
Investment portfolio management costs	(1,625)	(1,018)
Investment income credited directly to private endowments	(766)	(9,612)
Investment income of the Special Funds internally restricted to private endowments		(1,606)
Net gains related to new investment strategy, reinvested		(33,508)
	14,485	14,982

During the year ended March 31, 1997, pursuant to a new investment strategy to generate greater returns and preserve the future value of the Endowment Fund, the Canada Council changed the nature of its holdings in the Funds' investment portfolios. To accomplish this, the Council sold the major part of its investment portfolios and reinvested the proceeds in the respective funds. Capital gains realized as part of normal investment activities were included with revenue on the statement of operations, whereas the net gains related to the new investment strategy were disclosed separately on this statement.

14. Canadian Commission for UNESCO and Net Art Bank costs

	1998	1997
	(in thousands of dollars)	
Canadian Commission for UNESCO		
Program	294	461
Administration	635	843
	929	1,304
Net Art Bank costs		
Rental revenue	(1,128)	(1,161)
Other income	(90)	(59)
Administration	1,681	1,706
Amortization		117
	463	603

15. Restructuring expenses

On March 1, 1995, the Canada Council released its Strategic Plan entitled The Canada Council: A Design for the Future. The plan called for the Council to undertake a major restructuring of its program and administrative sections over the next three years. In 1997, as outlined in the Plan, the Council further restructured and streamlined the organization in order to reduce administrative costs by 1998. This was achieved by reducing the salary costs through retirements and layoffs. The cost of the severance packages and related expenses for the year ended March 31, 1997 was $1,312,000. These restructuring expenses were partially offset through receipt of a supplementary parliamentary appropriation of $292,000.

16. Commitments

(a) Payments of grants extending into future years are subject to the provision of funds by Parliament. Future year grants approved prior to March 31, 1998 are payable as follows:

	(in thousands of dollars)
1999	10,530
2000	6,894

(b) The Council is party to long-term leases with respect to rental accommodation. The net minimum annual rental is as follows:

	(in thousands of dollars)
1999	3,743
2000	2,973
2001	2,586
2002	2,586
2003	2,586
2004	1,509

For the year ended March 31, 1998, the annual rentals have been reduced by $2,847,000 (1997—$2,425,000) as a result of sub-leases with Public Works and Government Services Canada and The Encon Group.

17. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Council enters into transactions with Government of Canada departments, agencies and Crown corporations in the normal course of business, at the same trade terms applicable to all individuals and enterprises.

18. Comparative figures

Certain of the 1997 figures have been reclassified to conform to the 1998 presentation.

SCHEDULE OF PRIVATE ENDOWMENTS AS AT MARCH 31, 1998

(in thousands of dollars) SCHEDULE 1

	1998	1997
Killam Fellowships and Prizes	53,569	52,803
Molson Prize	2,288	2,288
Lynch-Staunton	2,118	2,118
John G. Diefenbaker	1,504	1,504
Coburn Fellowship	1,276	1,276
Vida Peene	600	600
Jean A. Chalmers	500	500
Joseph S. Stauffer	400	400
Japan-Canada Literary Prize	250	250
York Wilson Prize	250	
Duke and Duchess of York Prize	170	170
John Stephen Hirsch	134	134
Frances Elizabeth and J.P. Barwick	113	113
Ronald J. Thom Award	107	107
Other	32	18
	63,311	62,281

SCHEDULE OF GRANT EXPENSES BY SECTION FOR THE YEAR ENDED MARCH 31, 1998

(in thousands of dollars) SCHEDULE 2

	1998	1997
Arts programs (Note 10)		
Music	21,127	17,689
Theatre	20,047	16,571
Writing and publishing	17,812	15,296
Visual arts	13,087	10,924
Dance	12,152	10,365
Media arts	8,257	6,393
Public Lending Right Commission	8,033	5,981
Other	1,140	1,475
Killam Program		
Killam Research Fellowships	1,489	1,561
Izaak Walton Killam Memorial Prizes	150	150
Other prizes and awards		
Japan-Canada Fund	223	169
Victor Martyn Lynch-Staunton Awards	86	107
John G. Diefenbaker Award	75	75
Jean A. Chalmers Fund for the Crafts	50	41
Canada Council Molson Prizes		100
Glenn Gould Prize		50
Other prizes and awards <$50,000	138	136
	103,866	87,083

SCHEDULE OF ADMINISTRATION EXPENSES FOR THE YEAR ENDED MARCH 31, 1998

(in thousands of dollars) SCHEDULE 3

	Program	General administration	1998 Total	1997 Total
Salaries	3,841	2,025	5,866	6,792
Employee benefits	684	367	1,051	1,287
Office accommodation	74	2,074	2,148	1,819
Amortization		710	710	1,099
Professional and special services	323	361	684	857
Printing, publications and duplicating	24	416	440	462
Communications	158	272	430	427
Staff travel	303	48	351	429
Meeting expenses including members' honoraria	45	230	275	298
Information management	8	230	238	364
Office expenses and equipment	18	174	192	195
Miscellaneous	41	10	51	69
	5,519	6,917	12,436	14,098

CANADA DEPOSIT INSURANCE CORPORATION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements in this annual report are the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles. The financial statements include some amounts, the most significant ones being the loans and claims receivable, the provision for guarantees and the provision for insurance losses, that are necessarily based on management's best estimates and judgement.

The financial statements have been approved by the Board of Directors. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations as well as the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation. The system of internal control is augmented by internal audit, which conducts periodic reviews of different areas of the Corporation's operations. In addition, the internal and external auditors have free access to the audit committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Board of Directors.

The financial statements have been audited by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Jean Pierre Sabourin
President and Chief Executive Officer

Bert C. Scheepers
Vice-President, Corporate Services,
Acting Vice-President, Finance and
Chief Financial Officer

AUDITOR'S REPORT

TO THE MINISTER OF FINANCE

I have audited the balance sheet of the Canada Deposit Insurance Corporation as at March 31, 1998 and the statements of income and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 1, 1998

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1998	1997
Cash and short-term investmens (Note 3)	501,507	148,716
Premiums and other accounts receivable	7,789	3,996
Capital assets	971	1,569
	510,267	154,281
Loans and claims receivable (Notes 4 and 7)	372,845	693,123
	883,112	847,404

LIABILITIES	1998	1997
Accounts payable	5,922	12,596
Provision for guarantees (Notes 5 and 7)	614,227	645,941
Provision for insurance losses (Notes 6 and 7)	400,000	500,000
Loans from the Consolidated Revenue Fund (Notes 3 and 8)	401,890	865,047
	1,422,039	2,023,584
DEFICIT	(538,927)	(1,176,180)
	883,112	847,404

See accompanying notes.

Approved by the Board:

GRANT L. REUBER
Director

H. GARFIELD EMERSON
Director

STATEMENT OF INCOME AND DEFICIT
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Revenue		
Premiums	531,069	546,293
Interest on cash and short-term investments	15,507	10,433
Other revenue	5,927	4,192
	552,503	560,918
Expenses		
Interest on loans from the Consolidated Revenue Fund	45,863	84,835
Recovery of amounts previously written off	(5,677)	
Operating expenses	15,647	13,881
Intervention expenses	3,812	3,402
Other interest	10	294
	59,655	102,412
Income before adjustment to allowance and provisions for loss	492,848	458,506
Adjustment to allowance and provisions for loss (Note 7)	144,405	(333,713)
Net income	637,253	124,793
Deficit, beginning of year	(1,176,180)	(1,300,973)
Deficit, end of year	(538,927)	(1,176,180)

See accompanying notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Operating activities		
Net income	637,253	124,793
Non-cash items included in net income		
Adjustment to allowance and provisions for loss	(144,405)	333,713
Other	970	590
Net purchase of capital assets	(371)	(504)
Payment of guarantees	(31,714)	(66,680)
Loans disbursed		(73,238)
Loans recovered	208,450	180,946
Claims paid	(170)	(42,133)
Claims recovered	156,403	181,462
Decrease in working capital	(13,625)	(11,218)
Cash provided by operating activities	812,791	627,731
Financing activities		
Loans from the Consolidated Revenue Fund		
Advances		100,000
Repayments	(460,000)	(872,000)
Cash used in financing activities	(460,000)	(772,000)
Cash and short-term investments		
Increase (decrease) during the year	352,791	(144,269)
Balance, beginning of year	148,716	292,985
Balance, end of year	501,507	148,716

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Authority and objective

The Corporation was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the CDIC Act). It is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The objects of the Corporation are to provide insurance against the loss of part or all of deposits in member institutions, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability of the financial system in Canada. These objects are to be pursued for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including acquiring assets from, and providing guarantees or loans to, member institutions. Among other things, it may make or cause to be made inspections of member institutions, make standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened.

Use of estimates

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are: (i) the allowance for loss on loans and claims receivable, (ii) the provision for guarantees, and (iii) the provision for insurance losses.

The Corporation reviews these estimates annually. Actual losses, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The ability of the Corporation to recover its loans and claims receivable based on prevailing economic trends and expectations as to future developments.
- The Corporation's ability to recover its loans and claims receivable either by maximizing net recoveries from the sale of assets held by liquidators and agents, or through successful lawsuits as appropriate against relevant parties of failed member institutions.
- The extent to which the Corporation will be called upon to honour guarantees provided to member institutions and others.
- The timing and extent of losses the Corporation will incur as a result of future failures of member institutions. The provision for insurance losses is based upon an assessment of a wide variety of possible outcomes. These include historical experience, market perceptions, legal and regulatory developments, prevailing economic trends and expectations as to future developments, and accordingly involve considerable judgement.

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that ultimate losses do vary from the current estimates, the Corporation could recommend to the Governor in Council that the annual premium charged to member institutions be increased or decreased, depending on the situation. Also, the Corporation has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to Board of Directors and ministerial approval. CDIC can borrow up to $6 billion or such greater amount as may be authorized by Parliament under an appropriation Act.

Short-term investments

The Corporation maintains sufficient liquidity in its investment portfolio to meet general operating requirements as well as borrowing obligations. These investments, consisting of marketable securities and term deposits, are carried at cost as they are intended to be held to maturity.

Loans receivable

The Corporation may make loans to member institutions and others. The main purpose of providing these loans is to facilitate a resolution of the financial difficulties of member institutions. The terms and conditions of these loans provide for repayment of principal and, as recovery of the cost of providing loans, the Corporation charges interest. To the extent interest revenue is recorded in the accounts, it is included in other revenue.

Claims receivable

Claims against member institutions arise from the subrogation of the rights and interests of depositors to the extent of the amount of the payment made by the Corporation to insured depositors. In addition, the Corporation asserts claims in respect of loans made to member institutions in liquidation. The Corporation does not accrue and/or record any interest revenue on its claims receivable.

Allowance and provisions for loss

In its financial statements, the Corporation records the following allowance and provisions for loss:

Allowance for loss on loans and claims receivable—The allowance for loss on loans and claims receivable reflects the Corporation's best estimate of losses in respect of loans and claims receivable. The allowance is established by assessing the anticipated results of the asset disposition strategies and forecasted payments to creditors based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

Loans and claims receivable are written off against the allowance, in full or in part, when there is no reasonable expectations of realization. When the Corporation recovers amounts previously written off, these are recorded as a recovery of amounts previously written off.

Provision for guarantees—In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating the future cash payments required under these guarantees.

Provision for insurance losses—The provision for insurance losses represents the Corporation's best estimate of losses it will incur as a result of insuring deposits of member institutions.

The provision is established by: (i) assessing the aggregate risk of member institutions based on the Corporation's specific knowledge of its members, (ii) providing for the risk of loss relating to insured deposits by using a market-based composite risk-weighting system, and (iii) applying the loss experience, discounted to present value basis, to past member institution failures during the preceding eight years.

The market-based composite risk-weighting system is affected by two factors: (i) the credit ratings of member institutions; and (ii) the market spreads between corporate bond issues and benchmark bond issues of the Government of Canada for comparable terms.

Changes in the allowance and provisions for loss that result from annual estimations for financial reporting purposes are recognized as an adjustment to the allowance and provisions for loss in the period in which the changes occur.

Premium revenue

Premiums are based on the amount of insured deposits held by member institutions as at April 30 of each year. Premiums are recorded annually based on a Return of Insured Deposits from member institutions, which is due July 15 of each year. Premiums are payable in two equal instalments on July 15 and December 15.

Other revenue

The Corporation charges interest on loans made to member institutions and others. Interest continues to accrue on loans but is not recognized in the accounts when, in the Corporation's opinion, there is reasonable doubt as to collectibility of the interest. In such cases, interest payments received are recognized as a reduction of the loan balance until such time as the loans are retired. Subsequent payments are recognized as other revenue on a cash basis.

In some cases, amounts recovered from the estates of member institutions (claims receivable) exceed the amount claimed. These amounts are also recorded as other revenue on a cash basis.

3. Cash and short-term investments

	March 31 1998	March 31 1997
	(in thousands of dollars)	
Bankers' acceptances	337,542	102,201
Bearer deposit notes	111,025	22,197
Term deposits	6,900	11,118
Commercial paper	45,796	12,668
	501,263	148,184
Cash	244	532
Total	501,507	148,716

A significant portion of the cash and short-term investments will be used to repay the Consolidated Revenue Fund loans maturing in July 1998. Prepayment of these loans before July 1998 would incur significant penalty costs. The short-term investments have a weighted average effective yield of 4.81% (1997—3.11%) and have a weighted average term to maturity of 44 days (1997—25 days).

4. Loans and claims receivable

	March 31 1998	March 31 1997
	(in thousands of dollars)	
Loans receivable	225,433	433,883
Allowance for loss	(9,200)	(18,100)
Net loans receivable	216,233	415,783
Claims receivable	173,412	333,740
Allowance for loss	(16,800)	(56,400)
Net claims receivable	156,612	277,340
Total	372,845	693,123

Loans

The loans receivable are repayable on demand and bear interest at floating rates determined in accordance with formulas based either on prime rate or the rate for 90-day Treasury Bills. No interest revenue was recorded on existing loans receivable as the criteria for interest revenue recognition on the loans were not met. No new loans were made during the year.

Claims

No new claims were asserted during the year.

5. Provision for guarantees

In the course of business, the Corporation provides various guarantees to member institutions and others.

In order to facilitate the resolution of member institutions in financial difficulty, the Corporation provided deficiency coverage guarantees. These guarantees provide for payment of a portion of the principal and income losses incurred on eligible assets acquired by third parties. The guarantees will remain in force on a diminishing basis until the year 2002.

The Corporation also provided collaterized guarantees to the investors of distress preferred shares issued by Adelaide Capital Corporation, a former member institution. These shares are to be redeemed on or before December 1999, at which time the Corporation may be called upon to honour its guarantees.

The nominal amount of outstanding guarantees provided by the Corporation is $1.8 billion as at March 31, 1998 (1997—$2.4 billion) and the provision for guarantees as at March 31, 1998 is $614.2 million (1997—$645.9 million). The nominal amount represents the maximum exposure of the Corporation with respect to the guarantees provided. The nominal amount is not representative of the amount the Corporation expects to pay to third parties to meet its obligations under these guarantees.

6. Provision for insurance losses

During the 1996/97 fiscal year, the Corporation enhanced its methodology for estimating the amount of the provision for insurance losses. This enhancement is part of the continuing process of estimating and accounting for insurance losses that the Corporation will incur.

The provision for insurance losses is $400 million as at March 31, 1998 (1997—$500 million).

Pursuant to the 1996 amendments to the CDIC Act, the Corporation is developing a Premium By-law which will establish a system for differential premiums. Member institutions will be rated by category and each category will have a different premium rate. As a result of developing the differential premium system, the Corporation will have better information and analytical tools with which to assess its overall risk of loss resulting from insuring deposits in member institutions. Further enhancements to the methodology for estimating insurance losses will be made once the system for differential premiums is implemented.

7. Allowance and provisions for loss

The following table is a continuity schedule of the allowance for loss on loans and claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 1998 with corresponding totals as at March 31, 1997.

	March 31 1998					March 31 1997
	Loans receivable	Claims receivable	Guarantees	Insurance losses	Total	Total
	(in thousands of dollars)					
Beginning of period	18,100	56,400	645,941	500,000	1,220,441	984,771
Payments			(31,714)		(31,714)	(66,680)
Write-offs		(4,095)			(4,095)	(31,363)
Adjustment to allowance and provisions for loss	(8,900)	(35,505)		(100,000)	(144,405)	(116,287)
Change in accounting estimate						450,000
End of period	9,200	16,800	614,227	400,000	1,040,227	1,220,441

The allowance and provisions for loss are subject to measurement uncertainty. As such, actual losses may differ significantly from these estimates.

8. Loans from the Consolidated Revenue Fund

As at March 31, 1998, the Corporation has $402 million in outstanding loans from the Consolidated Revenue Fund including accrued interest of $7 million (March 31, 1997—$865 million, including accrued interest of $10 million).

The Corporation's risk management policy requires that a minimum of 80% of the debt portfolio be matched to future cash flows as to timing and amount. At March 31, 1998, the portfolio is fully matched. The loans bear interest at various fixed rates ranging from 6.16% to 7.33% (1997—5.87% to 7.33%) and the principal is repayable in July 1998.

9. Financial instruments

Credit risk

The Corporation is subject to credit risk from its holdings of short-term investments. Credit risk is minimized by investing in high credit-quality financial institutions or in short-term, high quality debt securities, and by limiting the amount invested in any one counterparty.

All of the loans and claims receivable relate to troubled or failed member institutions. The Corporation's credit risk exposure relating to loans receivable is directly impacted by these entities' ability to generate cash flows sufficient to meet their obligations to the Corporation as they become due. Realizations of claims receivable is largely dependent on the credit quality or value of assets held by the failed member institutions. The value of a significant portion of the remaining assets is dependent on real estate markets. As such, the Corporation is exposed to significant concentrations of credit risk arising from the real estate industry.

Fair value

No active or liquid market exists in which the Corporation's most significant financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgements regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 1998 and involve uncertainties and matters of significant judgement. Changes in assumptions could materially affect the estimates.

The book value of cash and short-term investments, premiums and other accounts receivable and accounts payable approximate their fair value because of their short term to maturity.

The book value of loans and claims receivable approximates their fair value as it represents the Corporation's best estimate of the amounts to be realized based on asset disposition strategies and forecasted repayments on account of loans and claims receivable. The Corporation's estimates are based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

The fair value of the provision for guarantees is not readily determinable due to the uncertain timing of future payments, but in any case, fair value would be less than book value, which has been determined without reference to discounting for the time value of money.

The book value of the provision for insurance losses approximates its fair value as it represents the Corporation's best estimate of the future claims to be paid to insured depositors and related expenses.

The fair value of the loans from the Consolidated Revenue Fund (Note 8) is $405 million (1997—$890 million). The fair value is estimated based on the present value of contractual cash flows discounted at the rate currently available to Crown corporations for debt with similar remaining terms to maturity. No provision has been made for early repayment penalties as the Corporation intends to settle the loans in accordance with their original terms.

10. Income taxes

The Corporation is subject to federal income tax and has losses that can be carried forward to reduce future years' earnings for tax purposes.

Such losses total $1,042.9 million and expire as follows:

Year	Amount (in millions of dollars)
1999	224.1
2000	224.6
2001	96.4
2002	202.4
2003	125.5
2004	90.4
2005	79.5
	1,042.9

11. Contingent liabilities

The Corporation is involved in a number of judicial actions arising in the normal course of operations. Although the final outcome with respect to claims and legal proceedings pending at March 31, 1998 cannot be predicted with certainty, in the opinion of the Corporation, none of these, individually or in the aggregate, would result in liability that would have a significant adverse effect on the financial position of the Corporation. Any impact of such matters will be reflected in the period in which the matter becomes determinable.

12. Insured deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 1997 and 1996, were as follows:

	1997	1996
	(in billions of dollars)	
Federal institutions	306	314
Provincial institutions	11	14
	317	328

In accordance with paragraph 21(1)(b) of the CDIC Act, the premium rate for the premium year 1998 was set at one-sixth of one percent of insured deposits, the same rate as in 1997.

13. Comparative figures

Certain of the 1997 figures have been reclassified to conform with the presentation adopted for 1998.

CANADA DEVELOPMENT INVESTMENT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Canada Development Investment Corporation are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the financial statements.

CDIC maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial records are reliable, form a proper basis for the preparation of financial statements and that CDIC's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the financial statements in this report principally through its audit committee, consisting solely of outside directors. The audit committee reviews CDIC's annual consolidated financial statements and reports its findings to the board for their consideration and approval. The audit committee also meets with management and with the shareholder's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, CDIC is exempt from the requirement to carry out internal audits.

These consolidated financial statements have been audited by the shareholder's auditors, the Auditor General of Canada and KPMG, whose report is presented separately.

Benita M. Warmbold
Director

March 11, 1998

AUDITORS' REPORT

TO THE MINISTER OF FINANCE

We have audited the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 1997 and the consolidated statements of income (loss) and accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the corporation and its wholly-owned subsidiaries.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada

KPMG
Chartered Accountants

Toronto, Canada
February 23, 1998

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands)

ASSETS	1997	1996
Current assets		
Cash and short-term investments	13,473	35,635
Cash on deposit in the Consolidated Revenue Fund (Note 4)	86,000	73,560
Cash restricted as to use (Note 7 (f))	10,000	10,000
Receivables	159	271
	109,632	119,466
Investments		
Non-consolidated subsidiaries (Note 5)	10,104	4,519
	119,736	123,985

LIABILITIES AND SHAREHOLDER'S EQUITY	1997	1996
Current liabilities		
Accounts payable and accrued liabilities (Notes 7 (b), (d) and (e))	7,657	10,535
Notes payable to Atomic Energy of Canada Limited (Notes 5 (b) and 7 (f))	20,104	14,519
	27,761	25,054
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—unlimited number of common shares		
Issued and fully paid—101 common shares	1	1
Contributed surplus	743,184	743,184
Accumulated deficit	(651,210)	(644,254)
	91,975	98,931
Contingencies (Note 7)		
	119,736	123,985

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

DON SHAVER
Director

WILLIAM ROSS
Director

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND ACCUMULATED DEFICIT
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands)

	1997	1996
Corporate operations		
Interest earned on short-term investments	685	1,812
Dividend and other income	282	2,874
	967	4,686
Corporate and divestiture expenses	(2,194)	(1,978)
Corporate income (loss), net	(1,227)	2,708
Gain on redemption of Varity shares (Note 6)		14,075
Provision for waste disposal costs (Note 7 (b))	(729)	(593)
Net income (loss)	(1,956)	16,190
Accumulated deficit, beginning of year	(644,254)	(629,194)
Dividends	(5,000)	(31,250)
Accumulated deficit, end of year	(651,210)	(644,254)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands)

	1997	1996
Operations		
Cash provided by (used in) corporate operations (Note 8)	(4,722)	3,660
Financing		
Dividends paid	(5,000)	(31,250)
Investing		
Proceeds from redemption of Varity shares		31,250
Increase (decrease) in cash	(9,722)	3,660
Cash, beginning of year	109,195	105,535
Cash, end of year	99,473	109,195

For purposes of this statement, cash and increase (decrease) in cash includes cash and short-term investments and cash on deposit in the Consolidated Revenue Fund and excludes cash transactions relating to cash restricted as to use.

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997
(all dollar amounts are stated in thousands)

1. The corporation

Canada Development Investment Corporation ("the corporation" or "CDIC") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The corporation is subject to the *Financial Administration Act* and is an agent of Her Majesty. The corporation is subject to federal and provincial income taxes.

2. Activities of the corporation

CDIC's mandate is to wind down its operations by divesting of its remaining assets in an orderly fashion and reducing operating costs to a minimum.

In 1997, the operations of CDIC were reduced to a minimum level which included the termination of the lease of the current office space and the termination of all remaining employees. An accrual of $1,300 was provided for in the 1996 statement of income to cover any liabilities associated with these actions. The Board of Directors will continue to manage the corporation with assistance of contract employees and government officials.

The Corporation's remaining significant assets are its investments in Canada Hibernia Holding Corporation ("CHHC") and Theratronics International Limited ("Theratronics").

The Corporation also manages contingencies discussed in Note 7.

The Board of Directors of the corporation is continuing to develop approaches to the divestiture of the corporation's remaining assets and the orderly wind down of its remaining obligations.

3. Significant accounting policies

(a) Basis of consolidation

The financial statements of Canada Eldor Inc. ("CEI"), a wholly-owned subsidiary, have been consolidated with those of the corporation.

(b) Investments in non-consolidated subsidiaries

The corporation's investments in subsidiaries acquired with the intention that they be disposed of or privatized in the foreseeable future are considered to be temporary investments and are carried at the lower of cost and net realizable value. If no reliable estimate of net realizable value is available, the investment is carried at cost. The corporation's investment in CHHC is considered to be a temporary investment and is accounted for in accordance with this policy.

The corporation's investments in subsidiaries acquired with the intention that they be disposed of or privatized in the foreseeable future and for which the corporation will not benefit from the ultimate gains or losses on disposition are carried at the corporation's proportionate interest in the underlying net book value of the subsidiaries, offset by a liability reflecting the corporation's obligation to forward any proceeds of disposition to another entity. The corporation's investment in Theratronics is accounted for in accordance with this policy.

The financial statements of CHHC and Theratronics are attached.

(c) Short-term investments

Short-term investments are valued at cost which approximates fair value due to the short period to maturity.

(d) Divestiture costs and recoveries

Divestiture costs are expensed when incurred and recoveries are recognized when realized. Divestiture costs and recoveries are included in corporate and divestiture expenses.

(e) Measurement uncertainties of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

4. Cash on deposit in the Consolidated Revenue Fund

In 1995 CEI deposited $73,560 in a non-interest bearing special purpose account in the Consolidated Revenue Fund ("CRF"). In April 1997 CEI deposited an additional $12,440 in the CRF. Funds can be drawn out of the account to extinguish any liability of CEI.

5. Investments in non-consolidated subsidiaries

The corporation's investments in subsidiaries are as follows:

	December 31	
	1997	1996
CHHC (a)		
Theratronics (b)	10,104	4,519
	10,104	4,519

(a) CHHC

On March 19, 1993 CHHC acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. CHHC's sole purpose is the holding, management, funding and ultimately, disposal of the 8.5% interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), the corporation and CHHC, the Government seeks the approval of Parliament to appropriate the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. CHHC is dependent on appropriations from the Government to fulfill its obligations.

Appropriations received from the Government by CHHC to fund the costs of the Hibernia Development Project are credited to contributed surplus of CHHC, but are not reflected in these consolidated financial statements as the investment in CHHC is carried at nominal cost. Total appropriations received to the end of 1997 are $408,598 (1996—$335,767).

Pursuant to the MOU, the corporation funds the administrative costs of CHHC and includes them in corporate and divestiture expenses. The aggregate costs are reimbursable to the corporation on commencement of commercial operations from the Hibernia Development Project production proceeds (if any such proceeds remain after payment of other production expenses and charges) or, if applicable, the proceeds from the sale of the working interest or the sale of the shares of CHHC in such manner as may be agreed upon by the corporation and the Minister of Finance.

Costs of the Hibernia Development Project to commercial production start-up are estimated at $5,819,000, before Government assistance. CHHC's 8.5% share is expected to be approximately $407,000. Total costs capitalized by CHHC related to the Hibernia Development Project to the end of 1997 are $405,152 (1996—$357,724). CHHC's expenditures incurred after March 23, 1993 do not qualify for Government contributions or Government guaranteed limited-recourse loans provided to the other owners of the project.

The Hibernia Development Project is in the development stage. Accordingly, CHHC has no operations until the production stage commences. Recovery of CHHC's capitalized costs relating to the Hibernia Development Project depends upon (i) the sale of the working interest for an amount in excess of the costs capitalized, or (ii) the successful completion of construction and achievement of commercial production of oil at prices sufficient to recover operating costs and capitalized costs.

The Hibernia Development Project defines "commercial production" to occur upon the production of the first three million barrels of crude oil from the project (CHHC's 8.5% interest is 255,000 barrels). Upon commencement of production, CHHC will follow the full cost method of accounting.

(b) Theratronics

The share purchase agreement between Atomic Energy of Canada Limited ("AECL") and the corporation requires the corporation to pay AECL the fair market value of the shares of Theratronics. The agreement also specifies that the fair market value will be estimated as at the date of transfer, but will subsequently be adjusted to an amount equal to the price ultimately received by the corporation in the subsequent privatization sale of Theratronics. Furthermore, the agreement specifies that the corporation is not required to make payment of the purchase price to AECL until 60 days after the privatization sale.

Accordingly, AECL will ultimately receive the full proceeds realized upon privatization of Theratronics, less the corporation's expenses associated with the privatization.

Thus, while the corporation has title to the shares of Theratronics and executive management control over its operations prior to its privatization, the corporation did not acquire the normal risks and benefits associated with share ownership. Accordingly, the corporation has recorded its investment in Theratronics at an amount equal to the net book value of Theratronics at December 31, 1997 and 1996, with an off-setting non-interest bearing note payable to AECL, and has not recognized any income or loss on this investment.

6. Investment in Varity Corporation

In August, 1996 Varity Corporation ("Varity") redeemed the 1,250,000 Class II preferred shares of Varity held by the corporation for $25.00 per share, plus accrued dividends.

7. Contingencies

(a) On December 23, 1986 the corporation sold its investment in Canadair Limited to Bombardier-Canadair Inc. The corporation and the Government have agreed to indemnify Bombardier-Canadair Inc. and Canadair Limited for specified product related claims for fifteen years from December 23, 1986 for which insurance coverage is unavailable or economically impracticable to obtain. Reasonable estimates of the effects, if any, of this indemnity cannot be made at this time. Such amounts will be recognized in future years, as appropriate, when reasonable estimates can be made as to the likely amount, if any, which will ultimately be paid pursuant to this indemnity. No amounts have been paid to date under this indemnity.

(b) Under the terms of the agreement between CEI and Cameco Corporation ("Cameco"), CEI and Cameco agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes accumulated by CEI to October 5, 1988, the date of transfer of CEI's operations and assets to Cameco. Cameco assumed liability for the first $2,000 of joint costs. The next $98,000 in joint costs will be shared 23/98ths by Cameco, 75/98ths by CEI. CEI assumed liability for joint costs in excess of $100,000.

Alternatives for the economic disposal for existing wastes continue to be pursued by Cameco. The majority of the joint costs under the indemnity provisions of the agreement relate to existing waste material located in two sites which are closed and have not accepted further wastes since October 5, 1988. The ultimate magnitude of the joint costs is largely dependent on the outcome of the Government's review and determination of where and what type of facility will be constructed to dispose of the waste, remediation standards that will be set by the Atomic Energy Control Board and the technologies that may be available to meet these standards at the time they are determined.

CEI accrues for these costs on an annual basis, based on reliable estimates provided by Cameco. As at December 31, 1997 Cameco estimates joint costs to be $12,353 (1996—$12,086) of which CEI's share is $7,923 (1996—$7,719). Accordingly, CEI has accrued this amount as its liability that is subject to reasonable estimation at this time. The balance payable, included in accounts payable and accrued liabilities, is $7,230 (1996—$7,257). It is likely that CEI will incur further liability for joint costs to be incurred in the future; however, the ultimate magnitude of this liability is not reasonably estimable at this time. To December 31, 1997 actual total joint costs incurred are $3,783 (1996—$3,528) of which CEI's share is $1,365 (1996—$1,170).

(c) CEI is a co-defendant with Cameco in a lawsuit brought on behalf of certain members of the Eldorado Pension Plan. The lawsuit is based on the fact that approximately $15,500 of plan expenses and employer contributions were funded from the plan surplus rather than from the co-defendants.

Affidavits have been exchanged and some cross examinations have taken place, but the cross examinations have not yet been completed. As such, many of the factual and legal issues have not yet been determined.

The co-defendants have a number of defences which continue to be vigorously pursued. Management remains of the opinion, after review of the facts with counsel, that the outcome of this case will not have a material financial impact in CEI.

(d) Under the terms of the agreement between CEI and Cameco, CEI agreed to reimburse Cameco for costs related to the final decommissioning of a former mine site. CEI accrues for these costs on an annual basis based on reliable estimates provided by Cameco. The ultimate magnitude of this liability is not reasonably estimable at this time.

(e) Under the terms of the agreement between CEI and Cameco, CEI is responsible for certain costs related to employees who retired prior to October 1988. CEI accrues for these costs as incurred.

(f) In November 1991 the corporation sold its investment in Nordion International Inc. ("Nordion") for proceeds of $165,000.

As part of the purchase and sale agreement, the corporation indemnified the purchaser for certain representations contained in the agreement of purchase and sale. The indemnity is subject to a deductible of $1,000 and an aggregate limit of $10,000 and expired two years after the date of the sale. $10,000 of the proceeds received from the sale are held in the CRF and is shown as "Cash Restricted as to use" in these financial statements, for use in satisfying any claims made under this indemnity.

Two claims were made under the indemnity provision. One claim was settled at no cost to CDIC in 1997 and one claim remains outstanding. Any balance remaining of the $10,000 withheld to cover the indemnity, net of claims, will be paid to AECL on settlement of the outstanding claim.

(g) The Government has introduced legislation which if enacted, would subject the corporation to the Large Corporation Tax provisions.

The corporation cannot presently estimate the impact, if any, of the Large Corporation Tax provisions; however, any amount will be charged to the statement of income in the year in which the legislation is passed by Parliament.

8. Cash provided by corporate operations

	1997	1996
Corporate income (loss), net	(1,227)	2,708
Decrease in receivables	112	250
Increase (decrease) in accounts payable and accrued liabilities before provision for waste disposal costs	(3,607)	691
Other		11
Cash provided by (used in) corporate operations	(4,722)	3,660

APPENDIX 1

CANADA HIBERNIA HOLDING CORPORATION

AUDITORS' REPORT

TO THE SHAREHOLDER OF CANADA HIBERNIA HOLDING CORPORATION

We have audited the balance sheet of Canada Hibernia Holding Corporation as at December 31, 1997 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporation Act* and the articles and by-laws of the Corporation.

KPMG
Chartered Accountants

Calgary, Canada
February 23, 1998

BALANCE SHEET DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands of dollars)

ASSETS	1997	1996
Current assets		
Accounts receivable	1,962	
Prepaid expenses	706	
	2,668	
Capital assets		
Hibernia development project	405,152	357,724
Crude oil tanker (Note 3)	39,456	
	444,608	357,724
	447,276	357,724

LIABILITIES AND SHAREHOLDER'S EQUITY	1997	1996
Current liabilities		
Accounts payable and accrued liabilities	2,359	3,796
Taxes payable	111	120
Current lease obligation	310	
	2,780	3,916
Long-term lease obligation (Note 3)	38,748	
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—Unlimited number of common shares		
Issued and fully paid— 1 common share		
Contributed surplus	408,598	355,767
Deficit	(2,850)	(1,959)
	405,748	353,808
Commitment and contingencies (Note 6)		
	447,276	357,724

See accompanying notes to financial statements.

On behalf of the Board:

DON SHAVER
Director

WILLIAM ROSS
Director

STATEMENT OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands of dollars)

	1997	1996
Expenses		
Large corporation tax	891	760
Loss for the year	891	760
Deficit, beginning of year	1,959	1,199
Deficit, end of year	2,850	1,959

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands of dollars)

	1997	1996
Cash provided by (used for)		
Operation		
Loss for the year	(891)	(760)
Decrease in working capital	(4,114)	(3,418)
	(5,005)	(4,178)
Investment		
Hibernia development project	(47,428)	(58,155)
Crude oil tanker	(39,456)	
	(86,884)	(58,155)
Financing		
Parliamentary appropriations from Canada	52,831	62,333
Increase in long-term obligation	39,058	
	91,889	62,333
Change in cash		
Cash, beginning of year		
Cash, end of year		

See accompanying notes to financial statements.

APPENDIX 1—*Continued*

CANADA HIBERNIA HOLDING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997
(all dollar amounts are stated in thousands)

1. Canada Hibernia Holding Corporation

Canada Hibernia Holding Corporation (the "Company" or "CHHC") was incorporated under the provisions of the *Canada Business Corporation Act* on December 4, 1992. The Company was acquired by Canada Development Investment Corporation ("CDIC") in March 1993. Prior to March 1993 the Company was inactive. The Company is subject to the *Financial Administration Act*.

On March 19, 1993, the Company acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's sole purpose is the holding, management, funding and ultimately, disposal of the 8.5% equity interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), CDIC and CHHC the Government seeks the approval of Parliament to appropriate the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. CHHC is dependent on appropriations from Government to fulfill its obligations.

The MOU also requires CDIC to fund administrative costs of CHHC. The aggregate costs are reimbursable to CDIC on commencement of commercial operations from the Hibernia Development Project production proceeds (if any such proceeds remain after payment of other production expenses and charges), or if applicable, the proceeds from the sale of the working interest or the sale of the shares of the Company in such manner as may be agreed upon by CDIC and the Minister of Finance (Note 2 (c)).

HMDC is a Company formed to act as agent for the participants in the Hibernia Development Project. All project expenditures, other than those relating to the transportation of oil from the project, are charged to the Joint Account which is owned by the participants in proportion to their working interest. The Joint Account is funded directly by the participants and by Federal and Provincial Government Contributions.

The Hibernia Development Project is in the development stage. Accordingly, CHHC has no operations until the production stage commences. Recovery of CHHC's capitalized costs relating to the Hibernia Development Project depends upon (i) the sale of the working interest for an amount in excess of the costs capitalized, or (ii) the successful completion of construction and achievement of commercial production of oil at prices sufficient to recover operating costs and capitalized costs.

During the latter part of 1997, the Hibernia Development Project received initial production from two successful wells. One tanker load of crude oil was lifted and in transportation to delivery point. CHHC's share of this crude is approximately 71,000 barrels having a gross sales value of $1,700 (Note 2 (d)).

The Company's wholly owned subsidiary, CHHC Oil Limited was incorporated in December 1997 and is currently inactive.

2. Significant accounting polices

(a) Investment in the Hibernia Development Project and Hibernia Management and Development Company Ltd.:

Investment in HMDC is accounted for using the cost method.

Development costs charged to the Joint Account subsequent to the date of acquisition of the working interest are capitalized. Development costs include costs of engineering construction and installation of production facilities comprised of a Gravity Based Structure and Topsides facilities. All of the Company's development activities are conducted jointly with the other owners.

(b) Contributed surplus

Appropriations received from the Government to fund the costs of the Hibernia Development Project are credited to contributed surplus.

(c) Administrative costs

The costs funded by CDIC in connection with the administration of the Company total $2,629 to date and have not been accrued as a liability or charged as an expense in these financial statements because the method of reimbursement of CDIC for those costs is contingent on certain future events which are uncertain.

(d) Commercial production

The Hibernia Development Project defines "commercial/production" to occur upon the production of the first three million barrels of crude oil from the project (CHHC's 8.5% interest is 255,000 barrels). Until commercial production is achieved the Company will capitalize all costs of production and transportation net of revenues as pre-production costs. Such pre-production costs are included as costs of the project and will be depleted together with other such costs on a unit of production basis. As at December 31, 1997 revenue net of operating costs, in the amount $827 has been capitalized. Upon commencement of commercial production, the Company will follow the full cost method of accounting.

(e) Depletion and depreciation

The costs of project facilities will be transferred to the depreciable pool as proved reserves are established. Development costs are similarly transferred to the depletable pool. Upon reaching commercial production these pools will be depreciated or depleted on a unit of production basis. The crude oil tanker will be depreciated on a unit of production basis using volumes transported over the estimated life of the Hibernia field.

(f) Abandonment

A provision for abandonment will be made on a unit of production basis commencing with commercial production.

(g) Foreign currency translation

Transactions of the Company that are denominated in foreign currencies are recorded in U.S. dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date.

3. Crude oil tanker

During 1995, the Company, together with one of the other participants, entered into agreements providing for the time charter and operations of a tanker for the transportation of oil from the project. The Company's share of annual fixed obligations is approximately $6,000. Payments commenced in November, 1997 for an initial term of ten years. The agreement provides for one five-year and five two-year extensions not to exceed twenty-five years. The time charter has been treated as a capital lease for accounting proposes. Accordingly, CHHC's 25.373% interest in the tanker has been capitalized and is presented on the balance sheet under capital assets. The long-term lease obligation represents the present value of the tanker time charter capital payments discounted at 14.5% over 20 years.

4. Royalty

Under the Hibernia Royalty Agreement a gross royalty of 1% to 5% is payable until such time as cumulative net sales revenue exceeds CHHC's investment in the project plus 15% compounded, from the date of the expenditure, per annum. Royalties following recovery of CHHC's total investment including compounding will be 30%.

5. Income taxes

The Company has available resource-related deductions and non-capital losses which may be carried forward and used in the prescribed manner to reduce taxable income in future years. At December 31, 1997, resource-related deductions were approximately $438,300 and non-capital loss carryforwards and investment tax credits were $31,500 and $50,000 respectively.

6. Commitment and contingencies

(a) During 1993, the Company acquired an 8.5% interest in the Hibernia Development Project. The Company's obligations, in connection with the acquisition, related only to project costs incurred after January 20, 1993. Costs of the Hibernia Development Project to the point of commercial production are expected to be approximately $5,819,000, before government assistance and are for production facilities only, exclusive of costs for drilling of wells and the Hibernia transportation system. The Company's 8.5% share is expected to be approximately $407,000. The Company's expenditures incurred after March 23, 1993 do not qualify for government contributions or government guaranteed limited-recourse loans provided to the other owners of the project.

CANADA HIBERNIA HOLDING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997—*Concluded*

(b) The Company became a participant in the Hibernia Development Project effective from the day of the first billion dollars of charges to the Joint Account. The determination of the first billion dollars of charges to the Joint Account and required owner contributions involves interpretations for the treatment of charges, credits and government contributions under the Hibernia Owner Agreements. Matters of Interpretation have yet to be resolved between Gulf Canada Resources Limited and certain project owners. The outcome of these matters is presently not determinable and thus, the potential impact on the Company's required contributions to the project is presently not determinable.

(c) The Company commenced legal action against other Hibernia owners and the Hibernia Management and Development Company Ltd. in January 1997. CHHC is seeking resolution in respect of transportation arrangements in place since February 1995. Extensive mediation has taken place resulting in an agreement which has been signed. CHHC will release all parties from the legal action when the Company is fully satisfied that all settlements are acceptable.

APPENDIX 2

THERATRONICS INTERNATIONAL LIMITED

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Theratronics International Limited as at December 31, 1997 and the statements of earnings, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the company that have come to our notice in the course of our examination of the financial statements have, in all significant respects been in accordance with Part X of the *Financial Administration Act* and regulations, the charter and by-laws of the company and any directives given to the company.

KPMG
Chartered Accountants

Ottawa, Canada
February 5, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands of dollars)

ASSETS	1997	1996
Current assets		
Cash	4,035	340
Accounts receivable	7,388	5,021
Inventories (Note 2)	8,831	8,480
Prepaid expenses	449	380
	20,703	14,221
Capital assets (Note 3)	4,518	3,964
In-reactor cobalt inventory	2,159	1,956
	27,380	20,141

LIABILITIES AND SHAREHOLDER'S EQUITY	1997	1996
Current liabilities		
Accounts payable and accrued liabilities	10,976	9,684
Advances and deferred revenue	5,021	4,431
	15,997	14,115
Long-term liabilities (Note 4)	1,279	1,507
SHAREHOLDER'S EQUITY		
Share capital (Note 6)	9,588	9,588
Retained earnings (deficit)	516	(5,069)
	10,104	4,519
Commitments (Note 10)		
	27,380	20,141

See accompanying notes to financial statements.

On behalf of the Board:

WARD PITFIELD
Director

BENITA WARMBOLD
Director

THERATRONICS INTERNATIONAL LIMITED—*Continued*

STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands of dollars)

	1997	1996
Sales	43,467	36,402
Cost of goods sold	25,605	27,097
	17,862	9,305
Operating expenses		
Selling and marketing	3,938	3,187
Administration	5,604	5,336
Research and development	2,735	3,288
	12,277	11,811
Net income (loss)	5,585	(2,506)

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands of dollars)

	1997	1996
Deficit, beginning of year	(5,069)	(2,563)
Net income (loss)	5,585	(2,506)
Retained earnings (deficit), end of year	516	(5,069)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(in thousands of dollars)

	1997	1996
Cash provided by (used in)		
Operations		
Net income (loss)	5,585	(2,506)
Depreciation	1,043	909
	6,628	(1,597)
Change in non-cash operating working capital (Note 8)	(1,108)	3,274
	5,520	1,677
Financing		
Decrease in long-term liabilities	(228)	(89)
Investments		
Net acquisition of capital assets	(1,597)	(1,060)
Increase in cash	3,695	528
Cash (bank indebtedness), beginning of year	340	(188)
Cash, end of year	4,035	340

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

Theratronics International Limited ("Theratronics") is incorporated under the *Canada Business Corporations Act* and is subject to the *Financial Administration Act*. The primary business of Theratronics is the manufacture, sales and service of radiotherapy and related equipment to hospitals and medical institutions around the world.

Theratronics was incorporated initially as a wholly-owned subsidiary of Atomic Energy of Canada Limited ("AECL"). The Minister of State for Privatization announced in 1988 the government's intention to sell the Company to the private sector. The Government confirmed it's intention to sell the company in the March 1996 Federal budget.

Assets and liabilities were transferred from AECL to the Company in exchange for 10,000 common shares. Since the transaction occurred between companies under common control, a value of $9,588 was assigned to capital stock for accounting purposes representing the net book value of the assets and liabilities transferred. The effective date of these transactions was July 1, 1988. As of September 30, 1988, all of the outstanding common shares were sold to Canada Development Investment Corporation ("CDIC"). No assessment of the potential impact of privatization has been made or reflected in the financial statements.

1. Significant accounting policies

(a) Capital assets

Capital assets are initially recorded at cost and depreciated on a straight-line basis over the estimated useful life of the underlying assets, as follows:

Asset	Basis
Site service	5 to 15 years
Building	20 years
Machinery, equipment and leased equipment	3 to 10 years

(b) Inventories

Finished goods inventories including service inventories are valued at the lower of cost and estimated net realizable value. Raw materials, work in process, and cobalt 60 are valued at the lower of cost and replacement cost. Cost is primarily determined on a standard cost basis and includes material, labour and manufacturing overhead where applicable.

(c) In-reactor cobalt inventory

In-reactor cobalt inventory represents primarily payments for irradiation services performed by AECL to produce cobalt 60. The amounts classified as long term will not be consumed within the next fiscal year.

(d) Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Company's contributions to the plan are limited to matching the employees' contributions on account of current service and past service buy back limited to federal government services. These payments are charged to income on a current basis and represent the total pension obligations of the Company.

(e) Employee termination benefits

Employees are entitled to specific termination benefits defined under collective agreements and conditions of employment. The charge to income and the liability are recognized in the accounts based on certain criteria as to retirements and terminations.

(f) Warranty provision

A provision is recorded for estimated warranty costs at the time of product sale.

(g) Revenue recognition

Revenue from the sale of radiotherapy units, software and related equipment is generally recognized upon shipment. Revenue from field services is recognized at the time services are rendered. Revenue from service contracts is recognized on a straight-line basis over the term of the contract.

(h) Foreign currency

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the monthly average rates of exchange during the year. Translation gains or losses are included in the determination of earnings.

Gains and losses on forward exchange contracts used to manage foreign currency exposures on export sales are recognized in earnings in the same period as the foreign currency revenues to which they relate.

2. Inventories

	1997	1996
Service inventory	473	838
Cobalt 60	2,477	2,426
Manufacturing		
Finished goods	1,046	1,157
Raw materials	2,217	1,998
Work-in-process	2,618	2,061
	8,831	8,480

3. Capital assets

			1997	1996
	Cost	Accumulated depreciation	Net book value	Net book value
Land	69		69	69
Site service	1,281	797	484	575
Building	3,767	3,274	493	321
Machinery and equipment	9,554	6,938	2,616	1,990
Equipment leased to customers	712	289	423	512
Equipment under capital lease	641	208	433	497
	16,024	11,506	4,518	3,964

Cost and accumulated depreciation were $14,799 and $10,835 respectively at December 31, 1996.

4. Long term liabilities

	1997	1996
Capital lease	123	258
Employee termination benefits	1,056	931
Deferred revenue	100	318
	1,279	1,507

The company has one manufacturing equipment capital lease. The lease requires an interest payment of 9.6% and expires in 1999. Future minimum payments, by year and in aggregate, consists of the following at December 31, 1997.

1998	154
1999	128
Total minimum lease payments	282
Amounts representing interest	(24)
Present value of net minimum lease payments	258
Less current portion included in accounts payable and accrued liabilities	(135)
	123

5. Financial instruments

(a) Foreign exchange risk management

The company has entered into forward foreign exchange contracts to hedge its foreign currency exposure on certain export sales. The contracts oblige the Company to sell U.S. dollars in the future at predetermined exchange rates. The contracts are matched with anticipated future U.S. dollar sales. At December 31, 1997 the Company had entered into contracts to sell U.S. $5,500 in the next eight months at an average exchange rate of $1.37.

(b) Credit risk

The Company is exposed to credit related losses in the event of default by customers and non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing with only creditworthy customers and counterparties or by obtaining insurance or letters of credit in accordance with established credit approval policies.

(c) Fair values

The carrying values of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

The fair value of the capital lease is determined by discounting the future contracted cash flows under the lease at current interest rates available to the Company for the same of similar instruments. As December 31, 1997, the carrying value of the capital lease approximates its fair value.

It is not practical to determine the fair value of the long-term liability for employee termination benefits as the timing of the payments is dependent on future events.

The Company has letters of guarantee totalling $661 ($676 in 1996) relating to performance guarantees in specific sales agreements. The letters of guarantee will fully expire on December 3, 1998. The Company has accrued $182 ($364 in 1996) in the year for these guarantees. It is not practical to determine the fair value of these letters of guarantee as there is no market for the guarantees and they were issued without explicit cost.

The fair value of the forward exchange contracts at December 31, 1997 was an unrealized loss of $289 and reflects the amounts the Company would pay on termination of the contracts at the balance sheet date at an average rate of $1.42.

6. Share capital

The authorized share capital of the Company consists of an unlimited number of no par value common shares with issued and outstanding shares totalling 10,000.

7. Income taxes

As a wholly-owned subsidiary of a Federal Crown Corporation, the Company is not subject to provincial income taxes.

The Company's expected income tax rate is the net Federal statutory rate (including surtax) of 39.12% less the applicable manufacturing and processing deduction of 7%. The 1997 effective tax rate is nil due to the utilization by the corporation of previously unrecognized losses and investment tax credits. The 1996 effective tax rate was nil due to the loss realized in the year.

The Company has non capital loss carryforwards for income tax purposes of Nil ($3,880 in 1996) and net capital loss carryforwards of $2,448 ($2,448 in 1996) available to offset taxable capital gains indefinitely. In addition, the Company has differences between the tax and accounting values of its assets for which future deductions are available in the amount of $10,254 ($8,988 in 1996). Of this amount, $3,162 ($3,248 in 1996) relate to the assets of the Company at the date it became subject to income taxes.

The Company has unused investment tax credits of $450 ($900 in 1996) available to reduce taxes payable up to 2004.

8. Operating working capital

The changes in non-cash operating working capital are comprised of:

	1997	1996
Accounts receivable	(2,367)	2,090
Inventories	(554)	1,041
Prepaid expenses	(69)	(78)
Accounts payable and accrued liabilities	1,292	1,784
Advances and deferred revenue	590	(1,563)
	(1,108)	3,274

9. Related party transactions

AECL provides irradiation services to the Company in the normal course of operations. Total purchases of irradiation services in the year were $1,899 ($1,688 in 1996) measured at the contracted amount. At December 31, 1997, $297 ($370 in 1996) of these purchases were included in accounts payable.

10. Commitment

The Company has a commitment, estimated at approximately $16,500 to purchase cobalt 60 from AECL produced at its Chalk River nuclear laboratory to the year 2008.

11. Sales Agents remuneration

During the year ended December 31, 1997 the Company has made payments totalling $2,608 to the following agents: Alatan Teknologi, Malaysia; Alkan Establishment, Egypt; Aristons, PVT, Sri Lanka; Birla Medical Technologies, India; Bureautique Communication, Algeria; CIS (U.K.), United Kingdom; CIS Germany, Germany; Dac Imaging, South Africa; Dynamotors, Mauritius; Edson Costa, Brazil; Gemed Sistemos, Venezuela; General Electronica Genelectric, Ecuador; General Machinery, Chile; General Medica, Colombia; Hamco Commercial, Peru; Institute of Isotopes, Hungary; Izinta Trading, Hungary; Mysore Kirloskar Ltd., India; Lactronics S.A., Brazil; Mr. Hari Lakshmanan, India; Medikal Teknik, Turkey; Meditron A.S. de C.V., El Salvador; Med X-Ray, South Africa; Nairobi X-Ray, Kenya; NCA Electromedicina, Spain; Parksons International, India; Promed S.A., Republic of Panama; Radcons Pty., Australia; Rimpex S.A.R.L., Tunisia; RTA Spolka, Poland.

CANADA LANDS COMPANY LIMITED

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Canada Lands Company Limited have been prepared by management of the Corporation in accordance with generally accepted accounting principles.

Management maintains financial and management reporting systems which include appropriate controls to provide reasonable assurance that the Corporation's assets are safeguarded, to facilitate the preparation of relevant, reliable and timely financial information and to ensure that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

Where necessary, management uses judgement to make estimates required to ensure fair and consistent presentation of this information.

The Board of Directors is composed of five directors, none of whom are employees of the Corporation. The Board of Directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. An Audit Committee appointed by the Board of Directors of the Corporation has reviewed these statements with management and the auditor and has reported to the Board of Directors. The Board of Directors has approved the financial statements.

The auditor is responsible for auditing the financial statements and has issued a report thereon.

All other financial and operating data included in the annual report are consistent, where appropriate, with information contained in the financial statements.

E. Buchholz
President and Chief Executive Officer

B. E. Richardson
Vice President, Chief Financial Officer

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

I have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 1998 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation and its wholly-owned subsidiaries.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 15, 1998

CONSOLIDATED BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1998	1997
Properties		
Income producing properties (Note 3)	137,745	170,370
Properties under development (Note 3)	61,036	17,607
Land held for development or sale	64,016	124,679
	262,797	312,656
Other assets		
Cash and short-term deposits	52,057	20,491
Amounts receivable (Note 4)	100,993	64,725
Prepaid expenses and other	2,385	5,912
	155,435	91,128
	418,232	403,784

LIABILITIES AND SHAREHOLDER'S EQUITY	1998	1997
Liabilities		
Mortgages payable (Note 5)	36,913	37,057
Notes payable to the Federal Government (Note 6)	55,800	37,100
Bank indebtedness		711
Accounts payable and accrued liabilities (Note 10)	61,995	78,023
Prepaid rents and deposits	21,017	1,270
	175,725	154,161
SHAREHOLDER'S EQUITY		
Capital stock (Note 8)		
Contributed surplus (Note 8)	218,317	238,717
Retained earnings	24,190	10,906
	242,507	249,623
Commitments and subsequent events (Notes 3, 10,14)	418,232	403,784

See accompanying notes to consolidated financial statements.

On behalf of the Board:

JON K. GRANT
Chairman of the Board

CHARLES PELLETIER
Chartered Accountant

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Revenues		
Property sales	133,956	142,765
Rental	33,461	43,072
Attractions, food and beverage	5,937	36,080
Interest and other (Note 10)	14,071	7,254
	187,425	229,171
Expenses		
Cost of property sales	114,510	106,623
Provision for diminution in value of assets	1,500	15,586
Rental operating costs	21,345	30,227
Attractions, food and beverage costs	3,406	23,210
Interest and other financing costs (Note 5)	3,885	4,733
General and administrative	13,364	15,083
Depreciation	5,984	8,718
Other	1,236	4,771
	165,230	208,951
Income before tax	22,195	20,220
Income tax (Note 9)	8,911	9,829
Net income	13,284	10,391
Retained earnings, beginning of year	10,906	515
Retained earnings, end of year	24,190	10,906

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Operating activities		
Net income	13,284	10,391
Recovery of real estate costs on sale	114,510	106,623
Provision for diminution in value of assets	1,500	15,586
Expenditures on properties	(53,120)	(47,385)
Depreciation	5,984	8,718
Deferred income tax	1,390	(431)
Other expenses		3,161
	83,548	96,663
Net change in operating assets and liabilities	(30,727)	(31,303)
Cash provided by operating activities	52,821	65,360
Financing activities		
Mortgages payable	(144)	(23,134)
Notes payable to the Federal Government (Note 12)	18,700	37,100
Reduction of capital stock (Note 8)	(20,400)	(10,900)
Amount payable on acquisitions		4,601
Cash provided by (applied to) financing activities	(1,844)	7,667
Investment activities		
Acquisitions (Note 12)	(18,700)	(55,250)
Expenditures on property held for investment		(6,460)
Cash applied to investment activities	(18,700)	(61,710)
Increase in cash	32,277	11,317
Cash, beginning of year	19,780	8,463
Cash, end of year	52,057	19,780

Cash includes cash and short-term deposits and is net of bank indebtedness.
See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Authority and activities of the corporation

Canada Lands Company Limited, a non-agent Crown corporation, originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. It was added to Schedule C to the *Financial Administration Act* in 1979 and listed as a parent Crown corporation in 1984 in Part I of Schedule III to the *Financial Administration Act*.

The Corporation has full power to acquire, manage, improve, sell or otherwise deal in or dispose of real or personal property or any interest therein.

As a consequence of the *CN Commercialization Act* in 1995, the Corporation acquired effective August 31, 1995 all the shares of Canada Lands Company CLC Limited ("CLC") and CN Tower Limited ("CNTL"). Prior to that date, the Corporation was inactive and had only nominal assets and share capital. CNTL was amalgamated with CLC effective December 1, 1997.

CLC's objective is principally to carry out a commercially-oriented and orderly disposal program of certain Federal Government real properties and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in the capacity of owner or as agent for the Federal Government. It is anticipated that the disposal program will be completed over a number of years.

2. Summary of significant accounting policies

(a) General

The consolidated financial statements are prepared in accordance with generally accepted accounting principles. With respect to real estate activities, the Corporation's accounting policies and standards of financial disclosure are also substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies, of which the Corporation is an associate member.

(b) Consolidation

(i) The Corporation consolidates the accounts of its principal wholly-owned subsidiary, CLC.

(ii) The consolidated financial statements also include the Corporation's proportionate share of all incorporated and unincorporated joint ventures in which the Corporation has an interest, to the extent of the Corporation's interest in their respective assets, liabilities, revenues, expenses and cash flows.

(iii) The accounts of the Corporation's other non-principal subsidiaries are excluded from consolidation because the Corporation does not have continuing power to determine their strategic operating, investing and financing policies. These non-consolidated subsidiaries are Canada Lands Company (Vieux-Port de Québec) Inc. and Old Port of Montréal Corporation Inc.

The Corporation has one additional subsidiary, 3148131 Canada Limited, which is presently inactive.

(c) Income recognition

The Corporation recognizes income as follows:

(i) Property sales

When the Corporation has fulfilled all material conditions and received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

(ii) Income producing properties under development

When break-even cash flow after debt service is achieved but not later than one year after substantial completion.

(d) Properties

(i) Income producing properties are carried at the lower of cost less accumulated depreciation and net recoverable amount or, if intended for disposition, at the lower of cost less accumulated depreciation and net realizable value.

(ii) Properties under development and land held for development or sale are carried at the lower of cost and net realizable value.

(iii) Prior to sale, the Corporation capitalizes all direct deferred selling costs related to the properties.

(iv) When significant interest costs are incurred related to development activities, the Corporation capitalizes such costs to properties.

(e) Depreciation

Depreciation is calculated on the straight-line method using rates based on the estimated remaining useful lives of the assets, which range from 5 to 40 years.

(f) Asset valuation

In determining estimates of net realizable values and fair market values for its properties, the Corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

The Corporation's properties are subject to various government laws and regulations relating to the protection of the environment. The Corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations. Where estimated costs are reasonably determinable, the Corporation considers such costs in arriving at estimates of fair market value of its properties, based on management's estimate of such costs. Such estimates are, however, subject to change based on agreements with regulatory authorities, changes in laws and regulations, the ultimate use of the property, and as new information becomes available.

Due to the assumptions which must be made in arriving at estimates of fair market value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

3. Properties

(a) Income producing properties

The Corporation's income producing properties consist of the CN Tower, office, industrial and mixed-use buildings.

	1998	1997
	(in thousands of dollars)	
Land	24,980	38,036
Buildings	128,887	143,714
	153,867	181,750
Accumulated depreciation	16,122	11,380
	137,745	170,370

(b) Properties under development

Properties under development consist of industrial office projects under construction, and commercial, residential and industrial lands currently being developed.

	1998	1997
	(in thousands of dollars)	
Income producing properties	2,170	1,495
Land	58,866	16,112
	61,036	17,607

Capital commitments at March 31, 1998 total $6,939,000 (1997—$4,165,000).

4. Amounts receivable

Amounts receivable are comprised as follows:

	1998	1997
	(in thousands of dollars)	
Assignment of rents receivable	35,062	35,067
Mortgages and secured notes receivable	52,653	20,991
Trade receivables	13,278	8,667
	100,993	64,725

(a) The Corporation has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income during the period ending 2013. At March 31, 1998, the assignment of rents receivable in the amount of $35 million reflects the estimated payments to be received during the term of the agreement, less imputed interest, as follows:

	(in thousands of dollars)
Years ending March 31	
1999	4,570
2000	4,615
2001	4,758
2002	4,897
2003	5,040
Subsequent years	65,710
	89,590
Less amounts representing inputed interest	54,528
	35,062

(b) Mortgages and secured notes receivable bear interest at various fixed rates ranging from 4.5% to 8.0% (1997—4.5% to 8%), and are repayable as follows:

	(in thousands of dollars)
Years ending March 31	
1999	9,039
2000	12,592
2001	4,986
2002	3,405
2003	4,995
Subsequent years	17,636
	52,653

5. Mortgages payable

Mortgages payable are secured by two of the Corporation's properties, and have a maturity schedule as follows:

	(in thousands of dollars)
Years ending March 31	
1999	157
2000	170
2001	184
2002	200
2003	6,202
Subsequent years	30,000
	36,913

Interest incurred on mortgages payable amounted to $3,885,000 (1997—$4,649,000) for the year ended March 31, 1998, and is payable at a weighted annual average rate of 10.38% (1997—10.38%).

6. Notes payable to the federal government

The notes payable are non-interest bearing and repayable from the proceeds of the sale of the real estate properties in respect of which the notes were issued.

Based on the anticipated timing of the sale of the real estate properties, principal repayments are estimated to be due as follows:

	(in thousands of dollars)
Years ending March 31	
1999	13,100
2000	18,900
2001	8,900
2002	7,400
2003	4,400
Subsequent years	3,100
	55,800

7. Financial instruments

(a) Cash and short-term deposits approximate fair value due to the short-term nature of these financial instruments. Short-term deposits are invested periodically at current market rates.

(b) Assignment of rents receivable approximates fair value based on discounted cash flow. Payment is dependent upon the cash flow of certain real estate leased to a single party.

(c) Mortgages and secured notes receivable approximate fair value based on discounted cash flow.

(d) Trade receivables approximate fair value due to the short-term nature of these financial instruments.

(e) Mortgages payable have a fair value at March 31, 1998 of $44,000,000 (1997—$43,000,000).

(f) Notes payable to the Federal Government approximate fair value based on discounted cash flow.

(g) Accounts payable and accrued liabilities approximate fair value due to their short-term nature or based on discounted cash flow, as appropriate.

8. Capital stock and contributed surplus

The Corporation is authorized to issue three shares which shall only be transferred to a person approved by the Minister of Public Works and Government Services. The three authorized shares have been issued in consideration of services rendered and are held in trust for Her Majesty in right of Canada by the Minister of Public Works and Government Services. Nominal value has been ascribed to the three issued shares of the Corporation.

During the year ended March 31, 1998, in accordance with the *Canada Business Corporations Act*, the Corporation transferred $20.4 million (1997—$10.9 million) of its contributed surplus to capital stock and subsequently reduced its capital stock by this amount by payment to the Shareholder.

9. Income tax

The Corporation's income tax expense differs from the expected income tax expense using the combined Federal and Provincial rate, as follows:

	1998	1997
	(in thousands of dollars)	
Combined federal and provincial rate	45%	45%
Expected income tax expense	9,961	9,111
Effect of non-taxable capital gains	(1,721)	(593)
Large corporations tax	590	524
Other	81	787
Actual income tax expense	8,911	9,829

10. Other liabilities and commitments

(a) The Corporation has a commitment under an income deficiency agreement whereby the Corporation is obligated to fund up to a maximum of approximately $13 million annually. The agreement expires in 2083, subject to earlier termination in 2009 under certain circumstances. The Corporation's estimate of this obligation, which is based on assumptions regarding future events and economic circumstances, is included in accounts payable and accrued liabilities. The annual change in the obligation is included in interest and other revenues.

(b) The Corporation has entered into commitments under operating leases for land and office premises for terms up to 92 years, with minimum lease payments as follows:

	(in thousands of dollars)
Years ending March 31	
1999	1,313
2000	1,281
2001	1,084
2002	474
2003	268
Subsequent years	16,871
	21,291

(c) Letters of credit totalling $4,153,000 (1997—$5,829,000) were outstanding at March 31, 1998.

11. Joint ventures

The following amounts included in the consolidated financial statements represent the Corporation's proportionate share in joint ventures:

	1998	1997
	(in thousands of dollars)	
Assets	48,831	53,322
Liabilities	40,261	41,069
Revenues	16,938	49,602
Expenses	16,335	47,733
Income	603	1,869
Cash provided by operating activities	4,909	21,461
Cash applied to financing activities	(145)	(23,134)

The Corporation is contingently liable for obligations of its associates in such joint ventures. In each case, all of the assets of the joint venture are available for the purpose of satisfying such obligations.

12. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

During the year ended March 31, 1997, CLC acquired an interest in five real estate properties from a Government of Canada department and a Crown corporation for an aggregate purchase price of $55.25 million. Consideration for these assets acquired was the issuance of promissory notes payable to the Federal Government in the amount of $37.1 million (Note 6) and an amount payable to a Crown corporation of $18.15 million.

During the year ended March 31, 1998, CLC acquired real estate properties from a Government of Canada department for consideration of the issuance of a promissory note payable to the Federal Government recorded at a discounted amount of $18.7 million (Note 6).

The Corporation receives audit services without charge from the Office of the Auditor General of Canada.

13. Information on non-consolidated subsidiary companies

Canada Lands Company (Vieux-Port de Québec) Inc. ceased operations effective March 31, 1988 and was dissolved on April 20, 1998.

Old Port of Montréal Inc. promotes the development of the lands of the Old Port of Montréal and develops, administers, manages and maintains Crown property in that location. As at March 31, 1997, this corporation, in thousands of dollars, had assets of $1,430, liabilities of $1,427 and equity of Canada of $3, with revenue of $8,288 and excess of operating expenditures over revenue of $3,244 for the year then ended.

14. Subsequent event

On April 21, 1998, the Corporation signed an agreement to purchase properties from a Crown corporation for a purchase price of $75.9 million. Consideration for the purchase will be the issuance of notes payable to the Crown corporation.

15. Comparative figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

APPENDIX 1

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1998
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADA MORTGAGE AND HOUSING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

CMHC management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements for the year ended December 31, 1997 were prepared in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff, and independent external auditors to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditors and has submitted its report to the Board of Directors which has approved the financial statements.

The financial statements have been audited by the joint external auditors, Jacques Champagne, CA, of the firm Mallette Maheu, and L. Denis Desautels, FCA, Auditor General of Canada. Their report offers an independent opinion on the financial statements to the Minister of Public Works and Government Services.

Marc Rochon
President and Chief Executive Officer

Karen A. Kinsley
Vice-President
Corporate Services and Chief Financial Officer

AUDITORS' REPORT

TO THE MINISTER OF PUBLIC WORKS
AND GOVERNMENT SERVICES

We have audited the balance sheets of the Canada Mortgage and Housing Corporation for the Corporate Account and the Insurance and Guarantee Funds as at December 31, 1997, and the related statements of operations and reserve fund, operations and surplus (deficit), and changes in financial position, and the Minister's Account statement of expenses and recoveries for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act* and the by-laws of the Corporation.

The financial statements for the year ended December 31, 1995 were reported on by other joint auditors.

Jacques Champagne, CA
Mallette Maheu
General Partnership
Associated with Arthur Andersen

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
March 4, 1998

CORPORATE ACCOUNT

BALANCE SHEET AS AT DECEMBER 31
(in millions of dollars)

ASSETS	1997	1996
Loans and investments (Note 3)	15,455	14,155
Cash and short-term investments	529	228
Deferred recoveries from the Minister	176	253
Due from the Minister (Note 4)	187	278
Assets under capital lease (Note 5)	25	27
Business premises and equipment (Note 6)	35	34
Accounts receivable	118	88
Future income taxes to recover	27	20
Other assets	14	15
	16,566	15,098

LIABILITIES	1997	1996
Borrowings from the Government of Canada (Note 7)	6,834	7,094
Capital market borrowings (Note 7)	9,273	7,573
Obligation under capital lease (Note 8)	31	33
Accounts payable and accrued liabilities (Note 4)	363	323
Due to the Receiver General for Canada	14	24
Due to Insurance and Guarantee Funds	11	22
	16,526	15,069
EQUITY		
Capital		
Authorized and fully paid by the Government of Canada	25	25
Reserve Fund (Note 9)	15	4
	16,566	15,098

The accompanying notes are an integral part of these financial statements.

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RESERVE FUND
YEAR ENDED DECEMBER 31
(in millions of dollars)

	1997	1996	1995
Interest earned	1,211	1,128	1,022
Interest expense	1,175	1,104	1,002
Net interest income	36	24	20
Real estate sales	25	17	12
Cost of real estate sold	(11)	(2)	(4)
Holding costs	(9)	(20)	(6)
Gain (loss) on real estate	5	(5)	2
Other income	2	1	1
Income before operating expenses	43	20	23
Operating expenses (Note 10)	24	29	36
Income (loss) before taxes	19	(9)	(13)
Taxes (Note 11)	8	(3)	(4)
Net income (loss)	11	(6)	(9)
Reserve fund, beginning of year	4	10	19
Reserve fund, end of year	15	4	10

The accompanying notes are an integral part of these financial statements

CORPORATE ACCOUNT

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in millions of dollars)

	1997	1996	1995
Cash flows provided by (used in) operating activities			
Net income (loss)	11	(7)	(9)
Add (deduct)			
Amortization	5	5	5
Future income taxes to recover	(7)	(6)	(3)
	9	(8)	(7)
Changes in			
Due to/from			
the Receiver General for Canada	(10)	17	(7)
Insurance and Guarantee Funds	(11)	26	(8)
the Minister	91	23	(49)
Accounts receivable	(30)	(16)	(31)
Accounts payable and accrued liabilities	40	21	(2)
Accrued interest payable	20	7	35
Accrued interest receivable	3	(5)	(9)
Other assets	1	4	15
	113	69	(63)
Cash flows provided by (used in) investment activities			
Loans and investments			
Repayments	564	398	298
Additions	(1,867)	(2,146)	(2,214)
Change in deferred recoveries from the Minister	77	2	71
Additions to business premises and equipment	(4)	(5)	(3)
	(1,230)	(1,751)	(1,848)
Cash flows provided by (used in) financing activities			
Repayments of borrowings from the Government of Canada	(257)	(410)	(447)
Capital market borrowings	1,677	1,599	2,515
Repayment of obligation under capital lease	(2)	(1)	(1)
	1,418	1,188	2,067
Increase (decrease) in cash position	301	(494)	156
Cash and short-term investments			
Beginning of year	228	722	566
End of year	529	228	722

The accompanying notes are an integral part of these financial statements.

MINISTER'S ACCOUNT

STATEMENT OF EXPENSES AND RECOVERIES
YEAR ENDED DECEMBER 31
(in millions of dollars)

	1997	1996
Expenses		
Market housing	61	57
Social housing	1,729	1,747
Housing support	32	11
Fees paid to delivery agents	9	12
Operating expenses (Note 10)	69	118
Expenses recoverable (Note 4)	1,900	1,945

The accompanying notes are an integral part of these financial statements.

INSURANCE AND GUARANTEE FUNDS

BALANCE SHEET AS AT DECEMBER 31
(in millions of dollars)

ASSETS (Note 12)	1997	1996
Investment in securities	2,692	2,187
Real estate	264	299
Securities purchased under resale agreements	950	
Mortgages	15	14
Accounts receivable and other assets	1	1
Future income taxes to recover	46	25
Due from Corporate Account	11	22
	3,979	2,548

LIABILITIES	1997	1996
Unearned premiums and guarantee fees	2,104	1,741
Provision for claims	825	742
Securities sold under repurchase agreements	952	
Taxes payable	2	
Accounts payable and accrued liabilities	59	17
	3,942	2,500
SURPLUS (Note 13)	37	48
	3,979	2,548

The accompanying notes are an integral part of these financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF OPERATIONS AND SURPLUS (DEFICIT)
YEAR ENDED DECEMBER 31
(in millions of dollars)

	1997	1996	1995
Revenues (Note 12)			
Earned premiums and guarantee fees	425	359	353
Application fees	55	42	36
Income from investments	184	155	153
Other	1	2	2
	665	558	544
Expenses			
Loss on claims	424	386	305
Operating expenses (Note 10)	147	122	120
Government of Canada fee	12		
Adjustment to provision for claims	97	21	72
	680	529	497
Income (loss) before the undernoted	(15)	29	47
Adjustment to premium deficiency			55
Income (loss) before taxes	(15)	29	102
Taxes (Note 11)	(4)	12	9
Net income (loss)	(11)	17	93
Surplus (deficit) beginning of year	48	44	(49)
Assets returned to the Government of Canada		(13)	
Surplus, end of year	37	48	44

The accompanying notes are an integral part of these financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in millions of dollars)

	1997	1996	1995
		(Note 12)	
Cash flows provided by (used in) operating activities			
Premiums and guarantee fees received	788	574	447
Application fees received	55	42	36
Investment income received	174	148	154
Net claims	(374)	(351)	(308)
Operating expenses paid	(116)	(112)	(120)
Taxes paid	(16)	(36)	11
Other	(29)	(23)	(13)
	482	242	207
Cash flows provided by (used in) investment activities			
Investment in securities	(493)	(203)	(215)
Assets returned to the Government of Canada		(13)	
Increase (decrease) in due from (to) Corporate Account	(11)	26	(8)
Due from (to) Corporate Account			
Beginning of year	22	(4)	4
End of year	11	22	(4)

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. Basis of presentation

Canada Mortgage and Housing Corporation was incorporated as a Crown corporation January 1, 1946. The Corporation is regulated by *the Canada Mortgage and Housing Corporation Act*. The Corporation's mandate, as stated in the *National Housing Act*, is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions." The Corporation is for all purposes an agent of Her Majesty in the right of Canada.

The Corporation has three separate responsibilities under its mandate and maintains separate accounting records for each. Separate financial statements are presented in order to preserve the separate identities of the assets, liabilities, capital, reserve fund, surpluses or deficits.

Together, these statements constitute the financial statements of the Corporation and reflect all of the transactions of the Corporation for the year ended December 31, 1997.

Corporate Account

Within this responsibility, the Corporation makes loans and other investments under various provisions of the *National Housing Act*, develops and sells land holdings, and provides services in housing-related areas. Funding is provided by borrowings from the Government of Canada and capital markets.

Minister's Account

The Corporation administers housing programs under provisions of the *National Housing Act* with funding provided by the Government of Canada through annual Parliamentary appropriations. The Corporation is reimbursed for subsidies and losses relating to these programs in addition to the related operating expenses.

Insurance and Guarantee Funds

The Corporation administers insurance and guarantee funds under provisions of the *National Housing Act*. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-backed Securities Guarantee Fund guarantees the timely payment of the principal and interest for investors of securities based on insured mortgages.

In total, the Corporation manages:

	1997	1996
	(in millions of dollars)	
Assets	20,534	17,624
Liabilities	20,457	17,548
Portion payable to Government of Canada	6,834	7,094
Minister's Account expenses recoverable from parliamentary appropriations	1,900	1,945
Operating expenses	240	269

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles in Canada.

(a) Loans

Corporate Account

Loans are carried at cost plus accrued interest. As they are intended to be held until maturity, their carrying value is not adjusted to reflect any temporary decline in fair value.

Losses on insured loans are recoverable through the Mortgage Insurance Fund and losses on uninsured loans are recoverable from the Government of Canada through the Minister's Account.

The Corporate Account is assured full collection of principal and interest and will not incur any losses on these loans due to uncollectibility. No loss provisions for loan impairment are made.

If loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Government of Canada through the Minister's Account when the loans are advanced.

Loans under certain programs contain interest rate clauses that are lower than the related Borrowings from the Government of Canada. Accordingly, related interest earnings losses are recoverable through the Minister's Account.

Insurance and Guarantee Funds

Mortgages are carried at cost less a provision for estimated loss based on market property values.

(b) Federal-provincial agreements

Loans and investments in housing projects were made under various cost-sharing agreements with the provinces and territories to encourage the development of rental housing, land assembly, co-operative housing, rural and native housing and housing rehabilitation.

The Corporation's share of costs plus capitalized interest are reflected in these statements. The Corporation's share of subsidies and losses related to these agreements is recovered from the Government of Canada through the Minister's Account.

Gains on the sale of land assembly projects are recognized in the Corporate Account.

(c) Real estate

Corporate Account

Real estate is comprised of: vacant land, direct acquisitions, property acquired through default of uninsured loans and capitalized costs for fee-for-service projects undertaken on behalf of the Canada Lands Company Limited.

All real estate is recorded at acquisition cost plus any modernization and improvement costs incurred.

Holding costs, including interest, on vacant land and direct acquisitions by the Corporation, excluding Social Housing projects, are capitalized up to market value after which the costs are expensed in the Corporate Account. Gains or losses on disposal are recognized in the Corporate Account.

Holding costs, including interest, on properties acquired as the result of default on uninsured loans, and for directly acquired Social Housing projects, are capitalized. Gains or losses on the disposal of these properties are paid to or recovered from the Government of Canada through the Minister's Account. All net operating losses, including amortization on buildings calculated on a straight-line basis over the remaining term of the corresponding debt, are recovered from the Government of Canada through the Minister's Account.

All costs incurred related to the projects administered for the Canada Lands Company Limited on a fee-for-service basis are capitalized and netted against proceeds from disposal, with all excess monies returned directly to the Canada Lands Company Limited.

Insurance and Guarantee Funds

Real estate acquired upon the payment of a claim resulting from a loan default is carried at the lower of cost or net realizable value. Net realizable value is calculated as the current market value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Amortization is not recorded on the real estate.

(d) Deferred recoveries from the Government of Canada through the Minister's Account

Effective April 1, 1991, expenditures to modernize and improve certain properties are recovered from the Government of Canada through the Minister's Account over a period not exceeding ten years.

(e) Amortization

Assets under Capital Lease, Business Premises and Equipment are amortized on a diminishing balance basis over the estimated useful life of the asset. Leasehold improvements are amortized on a straight-line basis.

(f) Derivative financial instruments

The Corporation enters into interest rate and foreign exchange transactions in order to manage its exposure to both interest rate and currency fluctuations. The Corporation uses accrual accounting for derivatives transactions used for its own on-balance sheet asset and liability management purposes. Gains and losses resulting from termination of these contracts are deferred and amortized on a straight-line basis to interest income or expense over the term of the underlying exposure.

(g) Short-term investments/investment in securities

The Corporation has a policy of matching the maturity structure of its Corporate Account assets with that of its liabilities. In those cases where the funds are raised in advance of the investment in loans and where the Corporation holds Short-term Investments as hedges, gains and losses on such investments are deferred and amortized on a straight-line basis to interest expense over the term of the debt issue that generated the monies for investment. Deferred gains and losses are included in Other Assets.

Investments are purchased with the original intention to hold them to maturity. Such investments are carried at amortized cost plus accrued interest. Investments are written down to their fair value when declines in value are other than temporary. Premiums and discounts on investments are amortized to income over the period to maturity of the related investments. Gains and losses realized on disposal of investments and write downs to reflect other than temporary impairment in value are included in interest earned from the investments in the year in which they occur. Gains and losses on disposal are based on the average cost of the securities sold.

(h) Interest earned

Interest earned arising from Loans and Investments, Cash and Short-term Investments and Deferred Recoveries from the Minister is recognized on an accrual basis up to the date that the asset is retired. Certain interest revenue is obtained through the Minister's Account.

(i) Capital market borrowing costs

Issuance Costs on Capital Market Borrowings are deferred and amortized against Interest Expense on a straight-line basis over the term of the debt.

Premiums and Discounts on Capital Market Borrowings are deferred and amortized on a constant yield basis over the term of the debt.

(j) Post-retirement benefits

Post-retirement benefits are expensed as incurred and are included in Operating Expenses.

(k) Provision for claims

This provision represents the estimated loss on claims in process of payment and the estimated loss on loans, where defaults have occurred, but for which claims have not yet been received by the Corporation.

(l) Premiums

Premiums are deferred and are taken into income over the life of the related policies according to the risk of default which is actuarially reviewed.

(m) Premium deficiency

Annually, the Corporation compares the amount of its unearned premiums to the discounted costs of claims that have not yet occurred on insurance policies in force. Whenever it is determined that the unearned premiums are inadequate to meet the expected net costs of future claims, a premium deficiency is charged to operations. Subsequently, it is taken into income on the same basis as unearned premiums.

(n) Guarantee fees

Guarantee fees are deferred and are taken into income over the term of the related Mortgage-backed Security issue on a straight-line basis.

(o) Application fees

Application fees are recognized as income when received.

(p) Insurance issuance costs

Issuance costs are expensed as incurred and are included in Operating Expenses.

(q) Income taxes

Income taxes are accounted for using the future income taxes method. Under this method, future income taxes are recognized whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflow or reduction.

(r) Securities purchased under resale and sold under repurchase agreements

Securities purchased under resale agreements consist of the purchase of a security, normally a government bond, with the commitment by the Corporation to resell the security to the original seller at a specified price. Securities sold under repurchase agreements consist of the sale of a security with the commitment by the Corporation to repurchase the security at a specified price. Securities purchased under resale and sold under repurchase agreements are carried at cost on the balance sheet. The difference between the sale price and the agreed repurchase price on a repurchase agreement and the difference between the cost of the purchase and the pre-determined proceeds to be received on a resale agreement are recorded in Income from Investments.

(s) Pension cost and obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, pro-rated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund, the deferred pension liability, is reflected in the balance sheet.

3. Loans and investments

	1997	1996
	(in millions of dollars)	
Loans	7,034	6,642
Federal-provincial agreements		
Loans	6,653	5,666
Investments in housing projects	1,632	1,672
Land assembly projects	31	48
	8,316	7,386
Real estate		
Vacant land	39	51
Direct acquisitions	35	30
Acquired through default on uninsured loans	30	33
Capitalized costs of projects administered for the Canada Lands Company Limited	1	13
	105	127
Total loans and investments	15,455	14,155

Any default or disposal losses incurred relating to 46% (1996—53%) of the Loans and Investment portfolio are recoverable through the Minister's Account. A further 53% (1996—46%) of the portfolio is insured by the Mortgage Insurance Fund.

Of the total Loans and Investments portfolio, 90% (1996—88%) relates to Social Housing programs which are supported with subsidies from the Government of Canada through the Minister's Account.

The amount of interest capitalized on real estate in 1997 was $2 million (1996—$3 million). Holding costs of $9 million (1996—$20 million) on land acquired directly by the Corporation have been expensed in the Corporate Account.

The following table provides the maturity structure of the loans:

	(in millions of dollars)
1998	1,680
1999	2,286
2000	2,332
2001	1,684
2002	2,204
Thereafter	3,501
Total	13,687

4. Due from the Minister

	1997	1996
	(in millions of dollars)	
Receivable, beginning of year	278	301
Expenses recoverable	1,900	1,945
Recovered from the Minister	(1,991)	(1,968)
Receivable, end of year	187	278

Accounts Payable and Accrued Liabilities in the Corporate Account include $264 million (1996—$229 million) which are also included in the receivable, Due from the Minister. When paid, recovery will be made from the Government of Canada through the Minister's Account.

5. Assets under capital lease

		1997			1996
	Amortization rate	Cost	Accumulated amortization	Net book value	Net book value
	%	(in millions of dollars)			
Building	4	30	7	23	23
Leasehold improvements	10	9	7	2	4
Total		39	14	25	27

Amortization in 1997 was $2 million (1996—$2 million, 1995—$2 million).

6. Business premises and equipment

		1997			1996
	Amortization rate	Cost	Accumulated amortization	Net book value	Net book value
	%	(in millions of dollars)			
Buildings	4 or 5	40	12	28	26
Leasehold improvements	20	2	1	1	1
Equipment	8, 20 or 30	36	30	6	7
Total		78	43	35	34

Amortization in 1997 was $3 million (1996—$3 million, 1995—$3 million).

7. Borrowings

The Corporation borrows from the Government of Canada (Consolidated Revenue Fund) and from capital markets under provisions of the *Canada Mortgage and Housing Corporation Act* and the *National Housing Act* to finance loans and investments.

The Corporation has authority to borrow a maximum of $15 billion from sources other than the government.

	Interest rate	Term	1997	1996
			(in millions of dollars)	
Government of Canada	2.00% to 17.96%	up to 2039	6,834	7,094
Capital Market				
Commercial paper	average 3.76%	average 31 days	887	1,228
Medium-term borrowings	5.34% to 8.92%	up to 2003	8,386	6,345
Total			16,107	14,667

Capital market borrowings include US $800 million carried at $1 103 million (1996—US $300 million carried at $410 million). All foreign exchange exposure risk is fully hedged through the use of cross currency swaps, for the interest and principal repayments.

The following table provides the maturity structure of Corporate borrowings:

		Capital Market		
	Government of Canada	Commercial paper	Medium-term borrowings	Total
	(in millions of dollars)			
1998	270	887	1,116	2,273
1999	196		1,497	1,693
2000	188		1,906	2,094
2001	194		1,261	1,455
2002	185		2,109	2,294
Thereafter	5,801		497	6,298
Total	6,834	887	8,386	16,107

The interest paid to the Government of Canada in 1997 was $615 million (1996—$640 million).

8. Obligation under capital lease

The Corporation financed additions and improvements to the National Office building in 1990 with a long-term lease that is accounted for as a capital lease. The Corporation assumes ownership of the building for a cost of one dollar at the termination of the lease in 2015.

The annual lease payments are $5 million for the first 10 years and $4 million for the remaining 15 years.

The minimum lease payments are:

	Leasehold improvements (10 year lease)	Building (25 year lease)	Total
	(in millions of dollars)		
Interest rate	11.57%	11.77%	
1998 to 2002	4	19	23
2003 to 2015		46	46
Total future minimum lease payments	4	65	69
Less interest	1	37	38
Present value of minimum lease payments	3	28	31

Interest expense in 1997 was $4 million (1996—$4 million, 1995—$4 million).

9. Reserve fund

The Reserve Fund is limited by Order-in-Council to $25 million.

10. Operating expenses

The operating expenses of the Corporation are allocated on the basis of staff utilization as follows:

	1997		1996		1995	
	(in millions of dollars)					
		%		%		%
Corporate Account	24	10.0	29	11.0	36	14.3
Minister's Account	69	28.8	118	43.8	92	37.1
Insurance and Guarantee Funds	147	61.2	122	45.2	120	48.6
Total	240	100.0	269	100.0	248	100.0

Included in Operating Expenses are estimated restructuring costs of $37 million for 1997 (1996—$56 million, 1995—$16 million).

11. Taxes

Taxes include income tax and Large Corporations Tax (LCT).

The tax rate on income is 38%. The Large Corporations Tax levied on certain capital amounts was increased from a rate of 0.2% to 0.225% effective February 28, 1995.

The Corporation reports income tax expense in the statement of operations based upon transactions recorded in the financial statements regardless of when they are recognized for income tax purposes.

Taxes are:

	1997			1996			1995		
	Income tax	LCT	Total	Income tax	LCT	Total	Income tax	LCT	Total
	(in millions of dollars)								
Corporate Account	8		8	(3)		(3)	(4)		(4)
Insurance and Guarantee Funds	(5)	1	(4)	11	1	12	8	1	9
Total	3	1	4	8	1	9	4	1	5

In 1997, the Corporation changed its accounting policy to ensure that income tax liabilities and assets are measured using the tax rates that are expected to apply when the liabilities are settled and the assets realized. The impact of this change in accounting policy was minimal for the Corporate Account and nil for Insurance and Guarantee Funds.

Details are:

	1997	1996	1995
	(in millions of dollars)		
Taxes	4	9	5
Taxes paid	32	25	1
Increase (decrease) future income taxes to recover	28	16	(4)
Future income taxes to recover			
Beginning of year	45	29	33
End of year	73	45	29

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997—*Continued*

12. Insurance and Guarantee Funds

BALANCE SHEET AS AT DECEMBER 31
(in millions of dollars)

	Mortgage Insurance Fund		Mortgage-backed Securities Guarantee Fund	
	1997	1996	1997	1996
ASSETS				
Investment in securities	2,635	2,140	57	47
Real estate	264	299		
Securities purchased under resale agreements	950			
Mortgages	15	14		
Accounts receivable and other assets	1	1		
Future income taxes to recover	46	25		
Due from (to) Corporate Account	11	24		(2)
	3,922	2,503	57	45
LIABILITIES				
Unearned premiums and guarantee fees	2,083	1,726	21	15
Provision for claims	825	742		
Securities sold under repurchase agreements	952			
Taxes payable	2			
Accounts payable and accrued liabilities	59	17		
	3,921	2,485	21	15
SURPLUS	1	18	36	30
	3,922	2,503	57	45

12. Insurance and Guarantee Funds—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS (DEFICIT)
YEAR ENDED DECEMBER 31
(in millions of dollars)

	Mortgage Insurance Fund			Mortgage-backed Securities Guarantee Fund		
	1997	1996	1995	1997	1996	1995
REVENUES						
Earned premiums and guarantee fees	417	351	344	8	8	9
Application fees	54	41	36	1	1	
Income from investments	180	151	150	4	4	3
Other	1	2	2			
	652	545	532	13	13	12
EXPENSES						
Loss on claims	424	386	304			1
Operating expenses	145	120	119	2	2	1
Government of Canada fee	12					
Adjustment to provision for claims	97	21	72			
	678	527	495	2	2	2
Income (loss) before the undernoted	(26)	18	37	11	11	10
Adjustment to premium deficiency			55			
Income (loss) before taxes	(26)	18	92	11	11	10
Taxes	(9)	8	6	5	4	3
Net income (loss)	(17)	10	86	6	7	7
Surplus (deficit), beginning of year	18	8	(78)	30	23	16
Surplus, end of year	1	18	8	36	30	23

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997—*Continued*

12. Insurance and Guarantee Funds—*Concluded*

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in millions of dollars)

	Mortgage Insurance Fund			Mortgage-backed Securities Guarantee Fund		
	1997	1996	1995	1997	1996	1995
Cash flow provided by (used in) operating activities						
Premiums and guarantee fees received	774	570	444	14	4	3
Application fees received	54	41	36	1	1	
Investment income received	171	146	151	3	2	3
Net claims	(374)	(351)	(317)			
Operating expenses paid	(114)	(111)	(119)	(2)	(1)	(1)
Taxes paid	(11)	(32)	15	(5)	(4)	(4)
Other	(29)	(23)	(13)			
	471	240	197	11	2	1
Cash flow provided by (used in) investment activities						
Investment in securities	(484)	(216)	(202)	(9)		(4)
Increase (decrease) in due from (to) Corporate Account	(13)	24	(5)	2	2	(3)

The Rental Guarantee Fund for which no detail is shown here had minimal activity in 1996 and 1995 which is part of the rolled up totals carried forward. Significant items are:

	1997	1996	1995
Surplus, beginning of year		13	13
Surplus, end of year			13
Net claims			9
Investment in securities		13	(9)
Assets returned to the Government of Canada		13	

13. Actuarial valuation of the Mortgage Insurance Fund

An actuarial study of the Fund as at September 30, 1997 disclosed that the Fund had an actuarial deficit of $6 million (September 30, 1996—$2 million actuarial surplus).

Although the Mortgage Insurance Fund financial position is determined annually by an independent actuary, changes in future conditions in the near term could require a material change in the recognized amounts. It is not possible to determine the magnitude of any such changes as they relate to general economic conditions within Canada.

14. Insurance and guarantees in force

(a) Mortgage Insurance Fund

Under Section 21 of the *National Housing Act*, the aggregate outstanding amount of all loans for which the insurance policies are issued may not exceed $200 billion. As at December 31, 1997, insurance policies in force totalled approximately $164 billion (1996—$131 billion).

(b) Mortgage-backed Securities Guarantee Fund

At December 31, 1997, guarantees in force totaled approximately $15 billion (1996—$14 billion).

15. Investments/securities

	Remaining term to maturity					
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	1997 Total	1996 Total
	(in millions of dollars)					
CORPORATE ACCOUNT						
Securities issued or guaranteed by						
Canada	1			111	112	
Other	406				406	227
Total	407			111	518	227
INSURANCE AND GUARANTEE FUNDS						
Securities issued or guaranteed by						
Canada	75	102	305	1,498	1,980	1,535
Provinces	5	116	95	176	392	375
Other	127	61	37	95	320	277
Total	207	279	437	1,769	2,692	2,187

Net cumulative unamortized gains of $9 million (1996—$8 million) on sale of Corporate Account Short-term Investments used as hedges have been deferred and are included in Other Assets. They are being amortized over the term of the assets funded.

Sales to acquire more attractive investments for the Mortgage Insurance Fund during 1997 resulted in a gain of $10 million (1996—gain of less than $1 million). These totals are included in Income from Investments in the current year.

16. Interest rate sensitivity

The following table illustrates interest rate sensitivity. Effective yield represents the fixed weighted average effective yield based on the earlier of contractual repricing or maturity date.

	Remaining term to repricing or maturity date						
	Within 1 year		1 to 5 years		Over 5 years		Total
	Amount	Effective yield %	Amount	Effective yield %	Amount	Effective yield %	
	(in millions of dollars)						
CORPORATE ACCOUNT							
ASSETS							
Loans	1,680	7.4	8,506	7.7	3,501	9.2	13,687
Cash and short-term investments	418	4.2			111	5.2	529
LIABILITIES							
Borrowings from the Government of Canada	270	8.9	763	8.9	5,801	8.9	6,834
Capital market borrowings	2,003	5.1	6,773	7.4	497	5.2	9,273
INSURANCE AND GUARANTEE FUNDS							
ASSETS							
Investments in securities	207	5.6	716	7.8	1,769	7.0	2,692
Mortgages	1	6.2	2	6.2	12	6.2	15

In 1991, the Government of Canada discontinued the Corporation's right to prepayment without penalty on its borrowings from the Consolidated Revenue Fund. Of these borrowings, $3 billion funded loans made by the Corporation prior to 1986 under various sections of the *National Housing Act* which have prepayment without penalty privileges.

As a result of the revised borrowing arrangements, the Corporation assumed the interest rate risk from the Government of Canada. This transfer of risk has resulted in negative interest margins to the Corporate Account. It also exposes the Corporation to potential losses in future years which could be material and significant in relation to the Corporate Account Reserve Fund.

During 1993 and 1994, some borrowers renegotiated loans at lower interest rates. Minimal renegotiations and prepayments have occurred since that time. Negative interest margin resulting from these renegotiations amounted to approximately $6 million in 1997. Upon repricing, given forecasted interest rates, there would be a further negative interest margin on these loans of approximately $19 million per annum.

For those loans that have not been renegotiated, based on management's best estimate, the negative interest margin that could result from the prepayment risk exposure amounts to approximately $29 million per annum.

The Corporation has engaged in a strategy to eliminate a significant portion of the prepayment risk associated with these loans and is actively pursuing strategies to reduce the interest rate risk associated with these loans on repricing.

The Corporation employs derivative contracts to manage its interest rate risk. These contracts include:

Interest rate basis swaps, in which the Corporation exchanges the monthly interest receipts on a notional amount of loans for the receipt of an equivalent amount of interest determined on a semi-annual basis. These swaps convert the Corporation's interest income on loans to the same basis as the interest expense on the debt that finances the loans.

Floating-to-fixed and fixed-to-floating interest rate swaps exchange a fixed monthly payment on a notional amount in exchange for a floating interest rate on the same notional amount. These swaps convert the floating rate portion of debt that finances fixed rate assets to the same fixed interest rate basis as the assets.

17. Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets, or interest or exchange rates. Asset/liability management derivatives are entered into by the Corporation within guidelines set by the Department of Finance, to manage the Corporate Account interest rate and foreign currency exposures arising from on-balance sheet positions in order to ensure a consistent stream of earnings.

The following table shows the notional amounts of derivative instruments outstanding by type and maturity. The notional amounts are used to calculate payments and do not represent the potential gain or loss associated with the credit or market risk of such instruments.

	1997					1996
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
	(in millions of dollars)					
Interest rate swaps	1,497	4,652	3,043	675	9,867	7,281
Cross currency swaps		410	693		1,103	410
Total	1,497	5,062	3,736	675	10,970	7,691

As with on-balance sheet assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Corporation. The credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. The Corporation strives to limit credit risk by dealing with creditworthy counterparties and manages its credit risk for derivatives through the same credit risk process applied to on-balance sheet assets. A large amount of the Corporation's credit concentration on derivatives is with financial institutions.

The following table summarizes the credit risk exposure of the Corporation's derivatives. The amounts do not take into consideration legal contracts which permit the offsetting of positions or any collateral which may be obtained.

	1997		1996	
	Notional amount	Credit risk	Notional amount	Credit risk
	(in millions of dollars)			
Interest rate swaps	9,867	108	7,281	139
Cross currency swaps	1,103	56	410	
Total	10,970	164	7,691	139

Master netting agreements reduce the Corporation's total credit risk exposure by allowing the offsetting of amounts due to/from the same counterparty. As at December 31, 1997, the potential impact of master netting agreements reduced credit risk to $132 million (1996—$121 million).

The above table excludes a $15 million exposure which is fully collateralized.

18. Fair value of financial instruments

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments of the Corporation using the valuation methods and assumptions as referred to below. Fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties.

As many of the Corporation's financial instruments lack an available trading market, fair values are based on estimates using present value and other techniques which are significantly affected by the assumptions used. Because of the estimation process and the need to use judgment, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

	1997		1996	
	Book value	Fair value	Book value	Fair value
	(in millions of dollars)			
CORPORATE ACCOUNT				
ASSETS				
Loans	13,687	16,480	12,308	13,944
Cash and short-term investments	529	527	228	228
Accounts receivable	118	118	88	88
LIABILITIES				
Borrowings from the Government of Canada	6,834	7,736	7,094	7,015
Capital market borrowings	9,273	9,441	7,573	7,892
Obligation under capital lease	31	46	33	46
Accounts payable and accrued liabilities	363	363	323	323
OFF-BALANCE SHEET				
Derivative financial instruments				
In a net receivable position		178		139
In a net payable position		51		114
INSURANCE AND GUARANTEE FUNDS				
ASSETS				
Investments in securities	2,692	2,889	2,187	2,365
Mortgages	15	15	14	14
Accounts receivable and other assets	1	1	1	1
LIABILITIES				
Accounts payable and accrued liabilities	59	59	17	17

Fair values are based on a range of valuation methods and assumptions.

The estimated fair value of the following assets and liabilities is equal to book value as the items are short-term in nature:

Corporate Account

- Cash
- Accounts receivable
- Capital market borrowings (short-term)
- Accounts payable and accrued liabilities

Insurance and Guarantee Funds

- Accounts receivable and other assets
- Accounts payable and accrued liabilities

Fair value of the following assets and liabilities is determined by reference to quoted market prices:

Corporate Account

- Short-term investments
- Capital market borrowings (medium-term)

Insurance and Guarantee Funds

- Investment in securities

Fair value of the following assets and liabilities is determined by discounting the contractual cash flows using prevailing market rates on underlying instruments with similar maturity and characteristics:

Corporate Account

- Loans
- Borrowings from the Government of Canada
- Obligation under capital lease
- Off-balance sheet derivative financial instruments

Insurance and Guarantee Funds

- Mortgages

19. Commitments

(a) Loans and investments

Commitments outstanding for Loans and Investments amounted to $63 million at December 31, 1997 (1996—$126 million).

(b) Operating leases

Minimum rental payments scheduled over the next five years on business premises and equipment under long-term non-cancellable leases are:

	1998	1999	2000	2001	2002
	(in millions of dollars)				
Business premises	13	11	9	7	6
Equipment	12	4	2		
Total	25	15	11	7	6

Total Operating Lease commitments at the end of 1997 were $64 million (1996—$43 million).

(c) Future contractual obligations

Total financial obligations under contracts for the Minister's Account, Social Housing programs, extend for periods up to 40 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

Estimated obligations for the next five years are:

	(in millions of dollars)
1998	1,853
1999	1,813
2000	1,793
2001	1,790
2002	1,790

20. Contingent liabilities

There were legal claims against the Corporate Account of less than $1 million (1996—$1 million).

There were other legal claims of $3 million (1996—$3 million), which if successfully held against the Corporation, could result in charges to the Government of Canada through the Minister's Account.

Legal claims of $17 million (1996—$83 million) are pending against the Mortgage Insurance Fund.

Due to the uncertainty of the outcome of these events, no provision for loss has been made.

21. Pension plan

The Corporation maintains an indexed, defined benefit pension plan. Retirement benefits are based on the average salary in any best five-year period and the number of years of service. The accrued pension benefits are determined using the projected benefits method pro-rated on service.

The Corporation's funding policy is to contribute the amount required to provide for current benefits attributed to service and to pay the unfunded pension plan liabilities over periods permitted by regulatory authorities.

Based on an actuarial valuation at January 1, 1998, the status of the plan is:

	1997	1996
	(in millions of dollars)	
Net assets available for benefits	807	733
Actuarial value of accrued pension benefits	683	631
Excess of net assets over actuarial value of accrued pension benefits	124	102

Annual pension cost to the corporation

	1997	1996	1995
	(in millions of dollars)		
Current service costs	8	13	11
Restructuring costs	25	17	8
Amortization of experience gains and losses	(9)	(6)	(1)
Government pension plans	2	2	2
Total	26	26	20

Although the Pension Fund financial position is determined by an independent actuary, changes in future conditions in the near term could require a material change in the recognized amounts.

Under *Income Tax Act* Regulations, once the excess net assets reaches a certain level, employers must suspend making payments to the Pension Fund (funding holiday). During this period, the asset is reduced by applying the employer current service contribution.

The Corporation is liable to provide the additional funding to the Pension Fund that is required as a result of the Early Retirement Reduction Waiver allowed as part of the Corporation's restructuring initiatives. Because of the mandatory funding holiday referred to above, the Corporation cannot make payment of the Early Retirement Reduction Waiver to the Pension Fund.

The deferred pension liability as at December 31, 1997 amounted to $50 million (1996—$25 million).

22. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with certain of these entities in the normal course of business. All material related party transactions are either disclosed below or in relevant notes.

Losses on Loans and Real Estate, interest earnings, and the amortization of modernization and improvement expenditures, relating to certain Corporate Account Assets, are recovered from the Government of Canada through the Minister's Account. The total of such recoveries which are not considered subsidies to others, amounted to $211 million (1996—$150 million, 1995—$239 million) of which $38 million (1996—$44 million, 1995—$51 million) is included in Interest Earned in the Corporate Account.

The Corporation is required to make an annual fee payment from the Mortgage Insurance Fund to the Government of Canada. In 1997, $12 million in fees was expensed (1996—nil).

In accordance with fee-for-service agreements between the Corporation and Canada Lands Company Limited, the Corporation is developing parcels of surplus government lands for residential housing projects. Development costs are capitalized and deducted from sales proceeds, the net of which is returned to the Canada Lands Company Limited, $1 million in 1997 (1996—nil, 1995—$1 million). Fees capitalized in 1997 were minimal (1996—$2 million, 1995—nil).

Subsequent to December 31, a Memorandum of Understanding between the Corporation and Canada Lands Company Limited was signed. It provides for the sale of most of the Corporation's land portfolio at an agreed upon market value. The portfolio is carried at the lower of cost or the negotiated market value.

23. Comparative figures

Certain 1996 comparative figures have been reclassified to the 1997 statement presentation.

CANADA PORTS CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE, P.C. M.P.
MINISTER OF TRANSPORT

We have audited the consolidated balance sheet of Canada Ports Corporation as at December 31, 1997 and the consolidated statements of income and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, *the Canada Ports Corporation Act* and the by-laws of the Corporation.

The accounts for the year ended December 31, 1996, shown for comparative purposes, were reported on by other auditors.

Raymond Chabot Martin Paré
Chartered Accountants

Ottawa, Canada
February 24, 1998

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash	2,768	988
Short-term investments (Note 4)	53,839	40,498
Accounts receivable	8,855	10,280
Materials and supplies	2,631	2,878
	68,093	54,644
Investments (Note 4)	16,964	16,900
Capital assets (Note 5)	109,828	108,077
	194,885	179,621
Interport Loan Fund (Note 10)	93,064	91,979
	287,949	271,600

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities (Note 6)	28,739	20,048
Due to Interport Loan Fund (Note 7)	2,387	2,030
	31,126	22,078
Accrued employee benefits	295	2,080
Due to Interport Loan Fund (Note 7)	66,712	63,599
Long-term debt (Note 8)	168,260	171,780
	266,393	259,537
Contingencies (Notes 14 (c), 15 and 16)		
DEFICIENCY OF CANADA		
Contributed capital (Note 3)	64,923	111,672
Deficit (Notes 3 and 9)	(136,431)	(191,588)
	(71,508)	(79,916)
	194,885	179,621
Interport Loan Fund (Note 10)	93,064	91,979
	287,949	271,600

The accompanying notes are integral part of these consolidated financial statements.

On behalf of the Board:

CAROLE TAYLOR
Chair

MERVYN C. RUSSELL
Director

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1997

(in thousands of dollars)

	1997	1996
Revenue from operations	59,620	59,026
Operating and administrative expenses	25,146	25,736
Depreciation	4,447	4,580
Municipal grants and taxes	2,393	2,542
	31,986	32,858
Income from operations	27,634	26,168
Investment income	3,653	3,969
Interest expense	(17,353)	(17,532)
Income before the undernoted items	13,934	12,605
Write-down of capital assets (Note 16)	(3,136)	
Divestiture costs (Note 3)	(1,514)	(404)
Parliamentary appropriation (Note 3)	(499)	1,000
Net income for the year	8,785	13,201
Deficit at beginning of the year	(191,588)	(204,473)
Dividend to Canada (Note 10)	(377)	(316)
Elimination of deficit upon port divestiture (Note 3)	46,749	
Deficit at end of the year	(136,431)	(191,588)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1997

(in thousands of dollars)

	1997	1996
Operating activities		
Net income for the year	8,785	13,201
Items not affecting cash		
Depreciation	4,447	4,580
Write-down of capital assets	3,136	
Other	(1,539)	(87)
Net change in non-cash components of working capital	10,582	3,221
Cash provided by operating activities	25,411	20,915
Financing activities		
Capital grants	1,560	2,500
Changes in amount Due to Canada	785	1,921
Transfers from Interport Loan Fund	5,500	5,900
Repayment of transfers from Interport Loan Fund	(2,030)	(1,722)
Issuance of long-term debt	8,067	9,000
Repayment of long-term debt	(11,583)	(17,077)
Dividend to Canada	(377)	(316)
Cash provided by financing activities	1,922	206
Investing activities		
Additions to capital assets	(11,204)	(11,934)
Change in construction payables	(1,008)	90
Cash required by investing activities	(12,212)	(11,844)
Increase in cash and short-term investments	15,121	9,277
Cash and short-term investments at beginning of the year	41,486	32,209
Cash and short-term investments at the end of the year	56,607	41,486

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. *Canada Ports Corporation Act*

Canada Ports Corporation (the Corporation) was established under the *Canada Ports Corporation Act* (the Act), to administer, manage and control Canadian harbours, and any other harbour, work or property of Canada transferred by the Governor in Council. The Corporation is named in Part II of Schedule III of the *Financial Administration Act* and is exempt from income tax.

The Corporation has direct responsibility for operating eight divisional ports and has a wholly-owned subsidiary, Ridley Terminals Inc. (RTI), a coal terminal facility at Prince Rupert. During 1997, the Corporation divested one of its divisional ports and the Governor in Council terminated its administration, management and control over that port (see Note 3). The Act provides for the establishment of local port corporations to manage and operate additional selected ports. The Act also charges the Corporation with certain responsibilities respecting these ports, particularly concerning capital projects. In addition, the Corporation administers the Interport Loan Fund on behalf of itself and the local port corporations.

On December 9, 1997 Bill C-9, *Canada Marine Act*, received third reading in the House of Commons. This proposed Act , when proclaimed, repeals the *Canada Ports Corporation Act* and dissolves the Corporation whose assets and obligations are to devolve to the Crown under the administration of the Minister of Transport (see Note 16).

2. Significant accounting policies

(a) Financial statements

The financial statements of the Corporation include the accounts of the divisional ports under its administration and of RTI. The activities of the local port corporations are excluded from the financial statements from the date of their establishment. As the earnings of the Interport Loan Fund do not automatically accrue to the Corporation, the assets, liabilities, revenues and expenses of the Fund are not consolidated (see Note 10).

(b) Investments

The short-term investments are carried at the lower of amortized cost, whereby premiums or discounts from par value are amortized over the periods to maturity, or market. Long-term investments are carried at the lower of amortized cost or market if a permanent decline in value exists.

(c) Materials and supplies

Materials and supplies consist of supplies, consumables and repair parts. They are valued at the lower of average cost and replacement cost.

(d) Capital assets

Capital assets are recorded at cost, with the exception of those transferred to the Corporation from Canada. The assets transferred from Canada are recorded at appraised or fair market value established at the time of transfer. Government grants received towards capital projects are deducted from the cost of the related capital assets.

Depreciation of capital assets is calculated on the straight-line basis commencing with the year the asset becomes operational, using rates based on the estimated remaining useful life of the assets.

(e) Pension plans

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account. Employees of RTI are covered separately by a contributory defined-benefit plan.

(f) Municipal grants and taxes

The expense for municipal grants and taxes is based on estimated municipal assessments, adjusted in accordance with the *Municipal Grants Act* where applicable. Municipal grants are finalized after the amounts have been audited by the Municipal Grants Division of Public Works and Government Services Canada. Any adjustments upon finalization of the grants are reflected in the accounts in the year of settlement.

(g) Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees under its collective agreements, or in accordance with its policy.

(h) Revenue recognition

Revenue is recognized as the related services are provided. RTI's coal throughput revenue is recorded at 50% of the contracted throughput rate at the time the coal is received at the terminal, with the balance being recorded at the time of ship loading. RTI's throughput agreements with its two main customers are in place until March 31, 1998 and March 31, 1999. The agreements in place provide for guaranteed delivery of an annual minimum tonnage to the terminal and under the terms of one of the agreements, shortfall payments may be required on a quarterly basis subject to a final adjustment at the end of the coal year (April 1 to March 31). Revenues resulting from any estimated shortfall in tonnage are recognized in the current year. Any difference between estimated shortfall revenue and required payments is recorded as an account receivable or an accrued liability.

3. Divestiture of port

On September 4, 1997, the Corporation transferred the operations of the Port of Churchill for nominal consideration. Revenues for operations applicable to the port amounted to $2,354,000 (1996—$4,593,000) with an operating loss of $174,000 (1996—operating income of $307,000). In addition, the Port of Churchill incurred divestiture costs of $1,278,000 (1996—$0).

For the past two years, the Government of Canada has assisted in defraying the Port of Churchill's operating deficit. In 1997, the unused portion of $968,000 of the 1996 operating grant, previously recorded as a revenue, was reimbursed to the Government of Canada. In 1997, the port received an operating grant of $469,000 for the 1997 operations. The parliamentary appropriation refund in the amount of $499,000, recorded in the financial statements, is the result of the reimbursement of the 1996 unused portion of the operating grant less the 1997 grant.

The Corporation's contributed capital and deficit with respect to the divested port, each in the amount of $46,749,000, have been transferred to the Government of Canada.

4. Investments

Short-term investments consist of $46,178,000 (1996—$39,999,000) of Canada Treasury bills and $7,661,000 (1996—$499,000) of other market securities. Interest rates on these investments vary from 2.91% to 5.02%. As at December 31, 1997 and 1996, the market value of the short-term investments approximates their amortized cost.

Long-term investments of $16,964,000 (1996—$16,900,000) are Canada bonds with interest rates varying from 5.3% to 5.4% and maturing between May 1, 2001 and December 15, 2002. As at December 31, 1997, their market value is $20,900,000 (1996—$21,469,000).

5. Capital assets

(a) Summary

		1997			1996
	Depreciation rates	Cost or appraised value	Accumulated depreciation and write-downs	Net	Net
	%	(in thousands of dollars)			
Land		7,306		7,306	7,363
Dredging	2.5-6.7	7,596	1,770	5,826	6,000
Berthing structures	2.5-10	46,323	23,126	23,197	24,367
Buildings	2.5-10	29,956	11,122	18,834	18,891
Coal terminal facility	4-33	22,651	5,401	17,250	18,099
Utilities	3.3-10	7,722	2,763	4,959	5,039
Roads and surfaces	2.5-10	6,159	4,607	1,552	2,133
Machinery and equipment	5-100	22,427	14,469	7,958	8,463
Office furniture and equipment	20-33	3,846	3,674	172	156
Works under construction		22,774		22,774	17,566
		176,760	66,932	109,828	108,077

(b) Capital grants

In 1997, the Corporation received capital grants towards the construction of capital assets totalling $1,560,000 (1996—$2,500,000) of which $246,000 (1996—$1,500,000) was from the Government of Canada.

6. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred revenues of $476,000 (1996—$665,000), a payable to Government of Canada of $785,000 (1996—$0) and the current portion of long-term debt of $87,000 (1996—$83,000).

Also included in accounts payable and accrued liabilities are an amount of $7,184,000 (1996—$538,000) for future lease termination costs (see Note 14(c)) and other potential dissolution costs which are not determinable at this time (see Note 16) and a provision for employee termination costs upon dissolution of the Corporation of $5,960,000 (1996—$6,575,000). The Corporation's share of these latter costs is nil in 1997 (1996—$404,000). The balance has been funded by transfers from the Interport Loan Fund and charges to the local port corporations.

7. Due to Interport Loan Fund

The Interport Loan Fund (see Note 10) has provided long-term financing for the coal terminal and the mixed cargo terminal projects at the Port of Belledune and the Alouette project at the Port of Sept-Îles as follows:

	1997	1996
	(in thousands of dollars)	
(a) Transfers to the Port of Belledune bearing interest at 6.05% to 11.47%, repayable in blended annual installments of principal and interest of $4,495,000 and maturing between December 31, 2012 and 2015	38,924	34,374
(b) Transfers to the Port of Sept-Îles bearing interest at 7.91% to 9.20%, repayable in blended annual installments of principal and interest of $3,836,000 and maturing December 31, 2011	30,175	31,255
	69,099	65,629
Less: current portion	(2,387)	(2,030)
	66,712	63,599

Principal repayment requirements over the next five years amount to $2,387,000 in 1998, $2,592,000 in 1999, $2,815,000 in 2000, $3,059,000 in 2001 and $3,323,000 in 2002.

8. Long-term debt

	1997	1996
	(in thousands of dollars)	
(a) Loan from Canada, bearing interest at 6.44%, repayable in twenty blended annual installments of principal and interest of $106,000 and maturing on December 31, 2000	280	363
(b) Loan from Province of New Brunswick, interest free, repayment based on 25% of Port of Belledune's net income for the first 8 years and on 75% of it for remainder of the term; loan to be fully repaid within 10 years following final disbursement by the Province	3,067	
(c) RTI note, repayable on August 12, 1998, and bearing interest at 6.93% payable annually	165,000	165,000
(d) RTI note, under a revolving credit facility, repayable by August 12, 1998, and bearing interest at Canadian inter-bank bankers' acceptance rate plus 0.20% payable at maturity of note		6,500
	168,347	171,863
Less: current portion	(87)	(83)
	168,260	171,780

Principal repayment requirements over the next five years amount to $87,000 in 1998, $93,000 in 1999, $100,000 in 2000, $0 in 2001 and $67,000 in 2002.

The loan from the Province of New Brunswick provides partial financing to the Port of Belledune for the mixed cargo terminal project. Under the financing agreement with the Province, a total amount of $3,850,000 is to be loaned, interest free. While the repayments are to be based on the Port of Belledune's net income, they are not to start until the full amount has been borrowed by the Port. Consequently, there is no repayment requirement for 1998. Due to the terms and conditions of this loan, only estimates could be included in the principal repayment requirements presented above.

The debt of RTI which is with Export Development Corporation (EDC) consists of notes. Under the financing arrangement with EDC, the fixed rate note is repayable in 1998, while notes issued under the revolving credit facility, at variable rates, are repayable by August 12, 1998.

Although the fixed rate note will mature during the following year, it is presented on a long-term basis because the original intention was the refinancing of RTI terminal facilities and it is RTI's Management intention to renegotiate long-term financing.

The revolving credit facility provides for notes to be issued up to an aggregate maximum of $41 million. These notes may be for a term of one to twelve months and may roll over on the maturity date with new face values and interest rates, with final repayment of all amounts under the credit facility due on August 12, 1998.

The financing with EDC is guaranteed unconditionally by the Government of Canada to a maximum of $230 million and is secured by a $250 million collateral demand debenture over all present and future assets of RTI.

9. Deficit

At the incorporation of RTI in 1981, 50% of RTI was owned by the Corporation while the remaining 50% was owned by an unrelated party. The shareholders' agreement of RTI provided a condition for the unrelated party to sell its shares to the Corporation in 1991. On July 30, 1991, the Corporation purchased the remaining 50% ownership in RTI and RTI became a wholly-owned subsidiary of the Corporation. The share purchase of $58.5 million was paid in cash and was fully financed by Canada. The excess of the purchase price, over the assets acquired of $31.7 million less the liabilities assumed of $229.1 million, resulted in a loss on acquisition of RTI of $255.9 million.

10. Interport Loan Fund

In 1988, authority was granted by Canada to the Corporation to establish an Interport Loan Fund (the Fund). This Fund is administered by the Corporation and was established to provide financing for financially viable capital projects of the Corporation and local port corporations. Financing is provided by way of transfers to divisional ports managed by the Corporation and by way of loans to local port corporations. Transfers and loans bear interest at the Crown corporation lending rate, the rate in effect from time to time between Canada and Crown corporations. Until December 31, 1994, earnings of the Fund were, pursuant to the terms and conditions under which the Fund was established, restricted to the uses for which the Fund was established. During 1995, the terms and conditions were amended to provide that the remaining earnings of the Fund of a year, after providing for the dividend to Canada, be transferred to the Corporation to be applied against the administrative office costs for the year.

The balance sheet of the Fund as at December 31 shows:

	1997	1996
	(in thousands of dollars)	
Assets		
Current		
Cash and investments	26,038	28,319
Transfers receivable (Note 7)	2,387	2,030
	28,425	30,349
Transfers receivable (Note 7)	66,712	63,599
Allowance for doubtful accounts	(2,073)	(1,969)
	93,064	91,979
Liability		
Current		
Due to the Corporation	3,491	2,328
Fund balance		
Contributed capital	70,332	70,332
Retained earnings	19,241	19,319
	89,573	89,651
	93,064	91,979

The investments of the Fund, shown at amortized cost, are direct and guaranteed securities of Canada. The interest rates vary from 2.91% to 5.02%. As at December 31, 1997 and 1996, the market value of the investments approximates their amortized cost.

In 1997, the Government of Canada approved that the 1996 forgiveness of the Port of Québec Corporation's debt of $6.3 million be applied against the Crown's investment in the Fund. Accordingly, the debt forgiveness was recorded as a reduction in the Fund's contributed capital in 1996.

In 1997, the Fund advanced $5.5 million (1996—$5.9 million) to the Port of Belledune for a capital project.

The Fund is committed to provide financing of $2.2 million in 1998 for a capital project at the Port of Belledune.

In accordance with the terms and conditions under which the Fund was established, the Corporation is required to pay to Canada a dividend from the Fund every year. However, during 1997, an overpayment of dividends to Canada from the Fund amounting to $4,561,000 for the period from 1991 up to and including 1995 was identified. As a consequence, dividends reported for 1996 and prior years were overstated. Accordingly, the dividend for 1996, which would have been payable on March 31, 1997, was recalculated as $3,114,000 and applied as an offset against the overpayment. Dividends in the amount of $377,000 payable to Canada for the year 1996 in respect of assessable income of the divisional ports were applied as a further set-off against the overpayment. As at December 31, 1997, the net outstanding amount of the overpayment refundable to the Fund from Canada is $1,070,000. It will be applied against the 1997 dividend of $2,832,000. Consequently, the portion of the 1997 dividend, payable in 1998, of $1,762,000 will be applied against the retained earnings as dividends are recorded on a cash basis.

The statement of income and retained earnings of the Fund is as follows:

	1997	1996
	(in thousands of dollars)	
Interest income	6,736	7,135
Operating and administrative expenses	211	56
Net income for the year	6,525	7,079
Retained earnings at beginning of the year	19,319	19,894
Recovery (payment) of dividend to Canada	377	(5,326)
Transfer to the Corporation	(6,980)	(2,328)
Retained earnings at end of the year	19,241	19,319

11. Pension plans

As at December 31, 1997, the updated actuarial reports of RTI's contributory plan indicate that the actuarial present value of the accrued pension benefits amounts to $9,127,000 (1996—$8,563,000) and the market value of the pension fund assets amounts to $9,272,000 (1996—$8,569,000). RTI's pension expense for 1997 of $725,000 (1996—$652,000) is actuarially determined.

12. Related party transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and Crown corporations.

In accordance with the Act, operating and administrative costs incurred by the Corporation in the amount of $2,900,000 have been recovered from the local port corporations in 1997 (1996—$4,230,000). These recoveries are offset against the related expenses. Operating expenses include rental costs of $1,901,000 (1996—$1,777,000) charged by a local port corporation. At December 31, 1997, $106,000 (1996—$254,000) of these rental costs are included in accounts payable and accrued liabilities. Interest charges on the debt to EDC, a Crown corporation, amounted to $11,493,000 (1996—$11,911,000). Included in accounts payable and accrued liabilities is $4,448,000 (1996—$4,453,000) of interest payable to EDC (see Note 8).

Included in accounts receivable is a receivable from the Interport Loan Fund of $3,491,000 (1996—$2,328,000) (see Note 10).

Investment income of $3,533,000 (1996—$3,891,000) was earned on Canada securities and interest charges of $23,000 (1996—$29,000) were paid to Canada.

Details of other transactions with the Government of Canada are disclosed in Notes 3, 4, 5 (b), 6, 8, 9, 10 and 14 (b).

13. Economic dependence

The Corporation's wholly-owned subsidiary, RTI, is dependent upon the production of two coal producers who provided 66.2% and 29.1% respectively of the subsidiary's 1997 revenue (1996—66.5% and 25.2%) under throughput agreements. RTI's throughput agreements are in place until March 31, 1998 and 1999. RTI and the producers have commenced negotiations for the renewal of these agreements. The outcome of these negotiations may have an impact on the future operations and management is currently investigating other alternatives.

14. Commitments

(a) Contractual obligations for the completion, construction and purchase of capital assets are estimated at $2,210,000 of which most will be incurred in the year ending December 31, 1998.

(b) RTI leases from the Prince Rupert Port Corporation the land on which the coal terminal facility is constructed. The lease is for twenty-five years starting March 31, 1984, with a twenty-year renewal term beginning March 31, 2009. Lease payments are based on throughput charges per tonne which are subject to escalation provisions relating to increases in the Canadian Consumer Price Index for each year and a minimum annual throughput of 6.35 million tonnes (1996—6.35 million tonnes).

(c) The Corporation's administrative office leases premises under an agreement which expires September 30, 2005. The future rent payable to the expiry date is approximately $681,000 in 1998, $885,000 per year from 1999 to 2004 and $663,000 in 2005. No expense has been recorded for future lease payments upon dissolution as the ultimate utilization of the premises is not determinable at this time. In the opinion of management, their impact on these financial statements will be minimal.

(d) In accordance with Ports Canada policy respecting dividends to Canada, the Corporation is required to pay a dividend in respect of the 1997 fiscal year. This dividend, payable in 1998, amounts to approximately $243,000 and will be applied against the Corporation's deficit.

15. Contingencies

Claims aggregating approximately $5,895,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation. In the opinion of Management, the final outcome of such claims should not result in any material financial liability and, accordingly, no provision has been recorded in this respect.

Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in the future cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

In the normal course of business, the Corporation is exposed to potential environmental issues, some of which have been identified. The ultimate effect of which is not determinable at this time, and as such, no provision has been made in the accompanying financial statements.

16. *Canada Marine Act*

Under the proposed *Canada Marine Act*, the Ports of Saguenay, Sept-Îles and Trois-Rivières have been designated to become Canada Port Authorities. The facilities at Port Colborne and Prescott are in the process of being divested. If divestiture is not completed prior to the dissolution of the Corporation, they will become public ports, under the administration of the Minister of Transport, as defined in the proposed Act. The future status of RTI and the Port of Belledune, after the dissolution of the Corporation, are yet to be determined. However, the Minister of Transport is named the appropriate minister for RTI for the purposes of the *Financial Administration Act*. The Corporation's present administrative office will be wound-up on the dissolution of the Corporation and the Corporation's remaining assets and obligations will devolve to the Crown under the administration of the Minister of Transport. It is anticipated that the *Canada Marine Act* will be proclaimed on January 1, 1999.

The effects of the dissolution of the Corporation are not fully known at this time. Provision has been made with respect to the carrying values of assets at the Port of Prescott. No expense has been recorded with respect to differences between the carrying values of assets and obligations and those values which may ultimately arise on the transfer of the other divisional ports and RTI, as the differences, if any, are not determinable at this time. A provision for determinable amounts relating to the wind-up of the administrative office has been made (see Notes 6 and 14 (c)).

17. Comparative figures

Certain of the 1996 comparative figures have been reclassified to conform to the current year's presentation.

CANADA POST CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management and the Board of Directors are responsible for the consolidated financial statements and all other information presented in this annual report. The *Financial Administration Act* and regulations require the consolidated financial statements to be prepared in accordance with generally accepted accounting principles. Management has been proactive in disclosing information which typically would only be required to be disclosed by enterprises, the securities of which are traded in a public market.

Where appropriate, the consolidated financial statements include amounts based on management's best estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In support of its responsibilities, management maintains financial and management control and information systems and management practices which are of high quality, consistent with reasonable cost. These systems and practices are designed to provide reasonable assurance that relevant and reliable financial information is produced and the assets are safeguarded and controlled in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Post Corporation Act* and by-laws of the Corporation. Internal audits are conducted to assess management systems and practices, and reports are issued to the Management Executive Committee and the Audit Committee of the Board.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee, which is composed of the Chairman of the Board of Directors and four directors who are not employees of the Corporation. The Audit Committee meets regularly to oversee the internal audit activities of the Corporation, and at least annually to review the consolidated financial statements and the external auditors' report thereon and recommend them to the Board of Directors for approval.

Canada Post Corporation is a Crown corporation named in Part II of Schedule III of the *Financial Administration Act* since 1989. Accordingly, each year, the Governor in Council appoints the Corporation's external auditors after giving consideration to the recommendations of the Corporation's Audit Committee on this matter. Deloitte & Touche were reappointed for the current fiscal year. They audit the consolidated financial statements and report to the Audit Committee as well as the Minister responsible for Canada Post Corporation. In contrast, the Auditor General of Canada is appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*.

All parent Crown corporations are subject to a special examination at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined, may require. The special examination, a type of value-for-money audit, serves to provide an independent opinion to the board of directors on whether the corporation's financial and management control and information systems and management practices were maintained in a manner that provided reasonable assurance that: the assets of the corporation were safeguarded and controlled; the financial, human and physical resources of the corporation were managed economically and efficiently; and the operations of the corporation were carried out effectively. A special examination is carried out by the auditor of a parent Crown corporation. The Auditor General of Canada jointly with Ernst & Young carried out the last special examination in respect of the Corporation. Their examination covered the period from November 17, 1993 to March 31, 1994.

Georges C. Clermont
President and Chief Executive Officer

Ottawa, Canada
May 1, 1998

AUDITOR'S REPORT

TO THE MINISTER RESPONSIBLE FOR CANADA POST CORPORATION

We have audited the consolidated balance sheet of Canada Post Corporation as at March 28, 1998, and the consolidated statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 28, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and the by-laws of the Corporation and its wholly-owned subsidiaries.

Deloitte & Touche
Chartered Accountants

Ottawa, Canada
May 1, 1998

CONSOLIDATED BALANCE SHEET AS AT
(in millions of dollars)

ASSETS	March 28 1998	March 29 1997
Current assets		
Cash and short-term investments (Note 3)	611	393
Accounts receivable	272	277
Prepaid expenses	70	67
	953	737
Segregated cash and investments (Note 4)	386	293
Capital assets (Note 5)	1,448	1,560
Other assets (Note 6)	132	136
	2,919	2,726

LIABILITIES AND EQUITY OF CANADA	March 28 1998	March 29 1997
Current liabilities		
Accounts payable and accrued liabilities	387	314
Salaries and benefits payable	325	286
Deferred revenues	163	181
Outstanding money orders	33	37
Current portion of long-term debt	85	84
	993	902
Long-term debt (Note 7)	166	171
Termination and post-retirement benefits	605	524
	1,764	1,597
Equity of Canada (Note 8)	1,155	1,129
	2,919	2,726

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:

ANDRÉ OUELLET
Chairman of the Board of Directors

G. PREFONTAINE
Chairman of the Audit Committee

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED
(in millions of dollars)

	March 28 1998	March 29 1997
Revenue from operations	5,066	5,085
Cost of operations		
Salaries	2,511	2,511
Benefits	531	531
Collection, processing and delivery	819	810
Accommodation	261	260
Amortization of capital assets and goodwill	193	176
Other costs of operations	698	663
	5,013	4,951
Income from operations	53	134
Non-operating income (expense)		
Investment and other income	22	18
Interest	(30)	(34)
	(8)	(16)
Income before income taxes	45	118
Income taxes (Note 10)	9	6
Net income	36	112
Deficit, beginning of year	(226)	(328)
	(190)	(216)
Dividend	10	10
Deficit, end of year	(200)	(226)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED
(in millions of dollars)

	March 28 1998	March 29 1997
Cash provided by (used in)		
Operating activities		
Net income	36	112
Items not requiring cash		
Amortization of capital assets	186	169
Amortization of other assets	7	16
Loss on disposal of capital assets		2
Gain on disposal of long-term investment		(14)
Accrued termination and post-retirement benefits	104	103
	333	388
Termination and post-retirement benefit payments	(23)	(20)
Change in non-cash working capital (Note 9)	92	22
	402	390
Dividend	(10)	(10)
Financing activities		
Decrease in long-term debt	(4)	(24)
Investing activities		
Increase in segregated cash and investments	(93)	(40)
Acquisition of capital assets	(80)	(101)
Proceeds on disposal of capital assets	6	72
Proceeds on disposal of long-term investment		47
Increase in other assets	(3)	
	(170)	(22)
Increase in cash and short-term investments	218	334
Cash and short-term investments at beginning of year	393	59
Cash and short-term investments at end of year	611	393

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 1998

1. Incorporation

The Corporation was established by the *Canada Post Corporation Act* in 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. The Corporation is a Crown corporation included in Part II of Schedule III to the *Financial Administration Act* and is an agent of Her Majesty. The subsidiary, PCL Courier Holdings Inc. (Purolator), is managed independently, also on a self-sustaining financial basis.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. A summary of the significant accounting policies of the Corporation follows:

(a) Consolidation

The consolidated financial statements of the Corporation include the accounts of its wholly-owned subsidiaries, Canada Post Systems Management Limited, Canada Post Holdings Limited (which has a controlling interest in PCL Courier Holdings Inc.) and CINA Holdings B.V. (up to October 31, 1996, at which point, subsequent to the sale of its interest in G.D. Net B.V., it was liquidated).

Goodwill arising on the acquisition of subsidiaries is amortized on a straight-line basis over 20 years.

(b) Fiscal year-end

Canada Post Corporation and its wholly-owned subsidiaries end their fiscal year on the last Saturday in March. Both the fiscal year ended March 28, 1998, and the fiscal year ended March 29, 1997, included 52 weeks.

In contrast, PCL Courier Holdings Inc.'s fiscal year ends on April 3, 1998, and includes 52 weeks. Its fiscal year ended on April 4, 1997, included 53 weeks.

(c) Capital assets and amortization

Land, buildings and equipment transferred from the Government of Canada on incorporation were recorded at their fair value at that date, determined as follows:

Land	—market value based on existing use
Buildings	—amortized replacement cost
Plant equipment, vehicles, sales counter and office furniture and equipment, and other equipment	—amortized replacement cost or original cost less estimated amortization

The market value of land and the amortized replacement cost of buildings transferred by the Government of Canada were determined by independent appraisals.

Acquisitions subsequent to incorporation are recorded at cost.

The Corporation has an agreement with both the National Archives of Canada and the Canadian Museum of Civilization to operate, administer and maintain a Canadian Postal Archives and a Canadian Postal Museum, respectively, containing philatelic material, postal artifacts, a postal library and exhibits that trace the history of the mail and other memorabilia. These collections, exhibits and books of undetermined value are not for resale and are recorded at a nominal cost.

Amortization is provided on a straight-line basis over the estimated useful lives of the following assets:

Buildings	30 and 40 years
Leasehold improvements	Initial fixed lease term plus period of first renewal option
Plant equipment	3 to 30 years
Vehicles (other than passenger and light-duty commercial)	6 to 10 years
Sales counter and office furniture and equipment	3 to 20 years
Other equipment	5 to 15 years

Amortization is provided on a diminishing balance basis at an annual rate of 30 per cent for all passenger and light-duty commercial vehicles.

(d) Revenue recognition

Amounts received for which services have not been rendered prior to the end of the year are deferred.

(e) Termination and post-retirement benefits

Canada Post employees are entitled to specified termination benefits, calculated at salary levels at the time of termination, as provided under collective agreements or conditions of employment. The present value of the projected costs of termination benefits, as determined by actuarial valuation, is recorded in the accounts as a long-term liability using an accrued benefits method. Such benefits accruing to employees, as well as gains and losses arising from actuarial valuation, are included in current operations.

In addition, Canada Post provides certain health care benefits to eligible retirees. Current service costs have been determined by actuarial valuation and included in current operations using an accrued benefits method. Past service costs have also been determined by actuarial valuation and are being amortized over the expected average remaining service life of the employee population.

Purolator Courier Limited employees are not entitled to these termination and post-retirement benefits.

(f) Pension plan

Canada Post employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions, which amounted to $100 million (1997—$100 million), are included in current operations. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies or indexation payments under the *Public Service Superannuation Act*.

Substantially all of Purolator Courier Limited's full-time and eligible part-time employees are covered by defined benefit and defined contribution pension plans. The cost of pension benefits earned by employees in defined benefit pension plans is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee groups. The actuarial value of pension assets represents the market value of these assets. The actuarial present value of accrued pension benefits attributed to service rendered up to March 28, 1998 is $38 million (1997—$34 million), and the approximate market value of the Company's pension fund assets as at March 28, 1998 is $44 million (1997—$35 million).

(g) Income taxes

The Corporation follows the deferral method of income tax allocation.

(h) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates; however, such differences would not be expected to have a material impact on these financial statements.

3. Cash and short-term investments

Cash and short-term investments consist of cash and investments rated R-1 with maturities, at the date of purchase, of less than 12 months. Such short-term investments are carried at cost, which approximates fair value due to the short period to maturity. The weighted average internal rate of return on the investments held as at March 28, 1998 is 4.72% (1997—3.13%).

4. Segregated cash and investments

The Corporation has segregated certain cash and investments for the sole purpose of managing cash flows relating to the employee termination benefits liability. Investments are valued at amortized cost. These investments are held in investment grade securities with maturities currently ranging from 1 month to 21 years. The weighted average internal rate of return on the investments held as at March 28, 1998 is 6.97% (1997—7.59%).

The fair value of the investments is based on rates currently available on instruments with similar terms and maturities. The fair value of segregated cash and investments as at March 28, 1998 is $404 million (1997—$299 million).

5. Capital assets

			1998	1997
	Cost	Accumulated amortization	Net	Net
	(in millions of dollars)			
Land	253		253	258
Buildings	1,202	669	533	560
Leasehold improvements	118	56	62	66
Plant equipment	695	424	271	325
Vehicles	91	84	7	10
Sales counter and office furniture and equipment	324	239	85	90
Other equipment	470	233	237	251
	3,153	1,705	1,448	1,560

6. Other assets

	1998	1997
	(in millions of dollars)	
Goodwill, net of accumulated amortization	110	117
Other	22	19
	132	136

7. Long-term debt

	1998	1997
	(in millions of dollars)	
10 year loan from the Government of Canada due April 1998, interest at 9.705%.....	80	80
Non-redeemable bonds maturing March 2016, interest at 10.35%.....	55	55
US $85 million Senior Notes issued in two series by Purolator Courier Limited due March 2004:		
Series A US $50 million carrying interest at 10.08% with principal payments due in equal instalments over the last five years of the term and Series B US $35 million carrying interest at 9.83% with principal payments due over the term. The Notes are secured by substantially all of the assets of Purolator Courier Limited without recourse to Canada Post Corporation. Under the indenture, Purolator Courier Limited is subject to certain financial and other covenants throughout the term of the debt.	115	119
Purolator Courier Limited entered into a series of cross currency interest rate swaps in order to hedge the future U.S. dollar principal and interest payments into Canadian dollars at rates varying between $1.376 and $1.348 and an effective interest rate of 11.6%.		
Subordinate notes issued by PCL Courier Holdings Inc. due October 1998, interest at 12.5%. ...	1	1
	251	255
Less current portion	85	84
	166	171

Interest expense on long-term debt was $27 million (1997—$28 million).

The annual amounts of principal payments to meet long-term debt obligations are as follows:

	(in millions of dollars)
1999	85
2000	16
2001	
2002	50
2003	23
2004 and thereafter.....	77
	251

The fair value, at March 28, 1998, of the 10 year loan from the Government of Canada due April 1998 approximates its book value due to the short period of time to maturity (1997—$84 million). The fair value of the non-redeemable bonds maturing March 2016 is based on rates currently available to the Corporation for debt with similar terms and maturity. Their fair value as at March 28, 1998 is $83 million (1997—$71 million).

Purolator has determined the fair value of the Senior Notes at March 28, 1998, as $134 million (1997—$133 million) by calculating the cost of repaying the notes, as specified in the agreement with the noteholders. It is not Purolator's intention to repay this debt or these swaps prior to their maturity dates at which time it will be settled for their stated values in the financial statements.

Purolator has two currency swaps outstanding. The first swap hedges the principal and interest payments of the original Senior Notes. In May 1996, Purolator entered into an additional currency swap arrangement to hedge the changes in the terms of the Senior Notes. The fair value of these swaps has been determined by the calculation of the cost of unwinding the swap with the counterparty at market rates. The fair market value for the swaps at March 28, 1998, is a loss of $3 million (1997—loss of $9 million).

The carrying value of the subordinate notes issued by PCL Courier Holding Inc. is considered to approximate its fair value.

8. Equity of Canada

	1998	1997
	(in millions of dollars)	
Contributed capital	1,355	1,355
Deficit	(200)	(226)
Equity of Canada.....	1,155	1,129

The *Canada Post Corporation Act* provides for the establishment of a share capital structure. The Corporation is authorized to issue shares to the Government of Canada based on the net asset value of the Corporation on the date of the first issue of shares, as determined by the Board of Directors, with the approval of the Treasury Board. No such shares have been issued.

9. Change in non-cash working capital

	1998	1997
	(in millions of dollars)	
Decrease (increase) in accounts receivable.....	5	(26)
Increase in accounts payable and accrued liabilities	73	14
Increase in salaries and benefits payable.....	39	25
(Increase) decrease in other non-cash working capital.....	(25)	9
	92	22

10. Income taxes

On March 27, 1994, Canada Post Corporation became a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxes under *the Income Tax Act*, Canada.

As at March 28, 1998, consolidated tax loss carry-forwards and net unclaimed tax deductions in the amount of approximately $370 million (1997—$421 million) are available to reduce future years' income otherwise subject to income taxes. The benefit of these items will be recognized as a reduction of income tax expense in the consolidated financial statements in the year they are realized.

11. Contingencies

(a) Two complaints have been filed with the Canadian Human Rights Commission alleging discrimination by the Corporation concerning work of equal value. The Corporation is presenting its evidence before the Tribunal with respect to one complaint and the Commission has not begun its investigation of the second. The outcome of these complaints is not currently determinable. Settlement, if any, arising from resolution of these matters will be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act)* and/or from the Government of Canada. Accordingly, no amounts are recorded in these financial statements.

(b) The Corporation is involved in various claims and litigation in the normal course of business for which provisions have been made to the extent determinable.

(c) Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in future years cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

12. Commitments

The Corporation's future minimum payments with respect to computing and communications utility services, as well as facilities and other operating leases with terms in excess of one year, are as follows:

	(in millions of dollars)
1999	220
2000	188
2001	161
2002	103
2003	81
2004 and thereafter	184
	937

CPC reached an agreement with the minority shareholders in Purolator to postpone any exercise by the minority shareholders of their rights to put their shares of Purolator to CPC under the 1993 Purolator Shareholders' Agreement until at least June 30, 1998, with a further extension to December 31, 1998 available at the option of CPC. Under the original agreement, the minority shareholders had the right to put their shares to CPC after December 31, 1996. If they exercise the put rights, the minority shareholders would sell their shares in Purolator to CPC at an agreed price of $61 million.

13. Related-party transactions

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements.

(a) Payments on behalf of postal users

Where Government policy requires the Corporation to provide services at rates less than cost to the publications industry, and for concessionary services such as Government free mail, literature for the blind and Northern Air Stage Services, the Government of Canada compensates the Corporation for foregone postage revenue from those sources. Compensation amounting to $81 million (1997—$84 million) is included in revenue from operations.

(b) Real property

The Corporation has incurred net operating costs of $12 million (1997—$36 million) in respect of real property agreements with Public Works and Government Services Canada.

(c) Other

The Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business.

As a result of all of the above transactions, the amounts due from and to these parties are $19 million (1997—$27 million) and $34 million (1997—$34 million) respectively.

14. Financial instruments—Other

(a) Fair values

The amounts reported in the consolidated balance sheet for all other financial instruments approximate their fair values.

(b) Concentration of credit risk

The Corporation does not believe it is subject to any significant concentration of credit risk.

The amount reported in the consolidated balance sheet for accounts receivable includes the impact of netting $227 million of gross accounts payable to foreign postal administrations against $243 million of gross accounts receivable from foreign postal administrations ($217 million of gross accounts payable and $244 million of gross accounts receivable in 1997), the basis used for these international settlements.

15. Disaggregated financial information

The Corporation has two operating segments: Canada Post and PCL Courier Holdings Inc. (Purolator). These operating segments are determined on the basis of the legal entities which are managed independently, each on a self-sustaining financial basis.

The Corporation has four main product/service lines: communications, publications, advertising and physical distribution. Communications consists of lettermail, hybrid products and electronic services. Publications consists of domestic and international newspapers. Advertising consists of admail. Physical distribution consists of courier, expedited delivery and parcels.

The Canada Post segment derives its revenues from all four product/service lines. The PCL Courier Holdings Inc. segment derives its revenues exclusively from physical distribution.

The accounting policies of the segments are the same as those described in the significant accounting policies (Note 2).

Transactions occur between the two independent segments, Canada Post and Purolator, at normal commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between the two segments. On this basis, Canada Post paid Purolator $16 million for air linehaul in 1998 (1997—$16 million) and Purolator paid Canada Post $3 million for postage in 1998 (1997—$2 million).

No individual customer's purchases account for more than 10% of revenues.

	1998			1997		
	Canada Post (52 weeks)	PCL Courier Holdings Inc. (52 weeks)	Canada Post Corporation	Canada Post (52 weeks)	PCL Courier Holdings Inc. (53 weeks)	Canada Post Corporation
	(in millions of dollars)					
Revenue from operations	4,217	849	5,066	4,325	760	5,085
Income before the undernoted items	197	42	239	261	42	303
Investment and other income	22		22	18		18
Amortization of capital assets	(176)	(10)	(186)	(160)	(9)	(169)
Interest expense	(14)	(16)	(30)	(19)	(15)	(34)
Income taxes	(5)	(4)	(9)	(5)	(1)	(6)
Net income	24	12	36	95	17	112
Assets	2,590	329	2,919	2,425	301	2,726
Liabilities	1,555	209	1,764	1,404	193	1,597
Acquisition of capital assets	66	14	80	95	6	101

16. Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation.

CANADIAN BROADCASTING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENT

The financial statements and all other information presented in the annual report are the responsibility of management and have been reviewed and approved by the Board of Directors of the Corporation. These financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with generally accepted accounting principles.

Management of the Corporation maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with the *Broadcasting Act* and the by-laws of the Corporation.

The Corporation's Internal Auditor has the responsibility for assessing the Corporation's systems, procedures and practices. The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on his audit to the Canadian Broadcasting Corporation and the Minister Designate of Canadian Heritage.

The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of the Corporation, reviews and advises the Board on the financial statements and the Auditor's General's report thereto. The Audit Committee oversees the activities of Internal Audit and meets with management, the Internal Auditor and the Auditor General on a regular basis to discuss the financial reporting process as well as auditing, accounting and reporting issues.

Perrin Beatty
President and CEO

Louise Tremblay
Senior Vice-President, Resources

June 15, 1998

AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF THE CANADIAN BROADCASTING CORPORATION AND THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Broadcasting Corporation as at March 31, 1998 and the statements of operations and proprietor's equity and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Broadcasting Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for parliamentary appropriations for depreciable capital assets as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part III of the *Broadcasting Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
June 12, 1998

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1998	1997 (Restated Note 3)
Current		
Cash and short-term investments	38,624	216,137
Accounts receivable	183,826	109,686
Program inventory	87,964	96,517
Prepaid expenses	35,094	21,361
Deferred income tax		20,523
	345,508	464,224
Capital assets (Note 8)	1,142,146	1,185,099
Deferred charges	25,449	15,416
	1,513,103	1,664,739

LIABILITIES	1998	1997 (Restated Note 3)
Current		
Accounts payable and accrued liabilities	223,605	190,938
Accrued vacation pay	38,078	40,088
Employee termination benefits	13,191	112,104
Obligations under capital leases (Note 12)	3,850	10,808
	278,724	353,938
Long-term		
Employee termination benefits	69,932	65,824
Deferred pension liability (Note 11)	97,639	97,748
Obligations under capital leases (Note 12)	385,345	389,276
Deferred capital funding (Note 9)	746,897	791,877
	1,299,813	1,344,725
PROPRIETOR'S EQUITY		
Proprietor's equity (Note 4)	(65,434)	(33,924)
Commitments and contingencies (Notes 13 and 14)		
	1,513,103	1,664,739

The accompanying notes form an integral part of the financial statements.

Approved on behalf of the Board of Directors:

LOUISE TREMBLAY
Senior Vice-President, Resources

GUYLAINE SAUCIER
Director

MICHEL DOYON
Director

STATEMENT OF OPERATIONS AND PROPRIETOR'S EQUITY FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Revenue		
Advertising and program sales	383,306	364,834
Specialty services (Note 5)	87,383	85,275
Miscellaneous	54,603	53,738
	525,292	503,847
Expense		
Television and radio service costs	1,065,009	1,129,038
Specialty services (Note 5)	86,096	85,420
Transmission, distribution and collection	64,107	65,637
Radio Canada International	15,264	15,657
Payments to private stations	12,295	16,019
Corporate management	15,073	15,696
Amortization of capital assets	135,379	117,303
Downsizing program (Note 6)	18,336	(19,312)
Total expense before taxes	1,411,559	1,425,458
Net operating loss before government funding and taxes	(886,267)	(921,611)
Government funding		
Parliamentary appropriation for operating expenditures (Note 4)	759,654	854,449
Frozen allotment to offset the 95/96 repayable advance (Note 4)	(56,669)	
Net funding for operating expenditures	702,985	854,449
Parliamentary appropriation for downsizing program (Note 4)		41,975
Funding for Radio Canada International (Note 5)	15,360	5,179
Amortization of deferred capital funding (Note 9)	135,120	116,741
Net results of operations before taxes	(32,802)	96,733
Provision for income and large corporations taxes (Note 7)	2,708	2,959
Net results of operations for the year	(35,510)	93,774
Proprietor's equity, beginning of year	(33,924)	(131,698)
Working capital funding (Note 4)	4,000	4,000
Proprietor's equity, end of year	(65,434)	(33,924)

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOW FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Operating activities		
Net results of operations for the year	(35,510)	93,774
Gain on disposal of capital assets	(100)	(202)
Items not involving cash		
Amortization of capital assets	135,379	117,303
Amortization of deferred charges	5,390	14,453
Employee termination benefits and vacation pay	(96,815)	(39,691)
Deferred pension contribution	(109)	(57,566)
Amortization of deferred capital funding	(135,120)	(116,741)
Net change in working capital balances excluding cash and short-term investments (Note 16)	(26,130)	17,968
	(153,015)	29,298
Financing activities		
Parliamentary appropriations (Note 4)		
Capital funding	90,140	96,709
Working capital funding	4,000	4,000
Proceeds on disposal of capital assets/financing from other organizations	1,287	2,690
	95,427	103,399
Investing activities		
Acquisition of capital assets	(93,613)	(85,874)
Capital portion of lease payments	(10,889)	(16,533)
Refinancing of capital lease		4,792
Deferred charges	(15,423)	
	(119,925)	(97,615)
Increase (decrease) in cash and short-term investments	(177,513)	35,082
Cash and short-term investments, beginning of year	216,137	181,055
Cash and short-term investments, end of year	38,624	216,137

The accompanying notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1998

1. Authority and objective

The Canadian Broadcasting Corporation was first established by the 1936 *Canadian Broadcasting Act* and continued by the 1958, 1968 and 1991 *Broadcasting Acts*. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

As the national public broadcaster, the Canadian Broadcasting Corporation provides radio and television services in both official languages incorporating predominantly and distinctively Canadian programs to reflect Canada and its regions to national and regional audiences.

2. Significant accounting policies

The financial statements include the accounts of the Corporation and its proportionate share of the assets, liabilities, revenues and expenses relating to joint venture activities. The financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies are set out below:

(a) Parliamentary appropriations and deferred capital funding

The Government of Canada mainly finances the Corporation. Parliamentary appropriations provided for operating expenditures and downsizing expenses are recorded on the Statement of Operations and Proprietor's Equity. Parliamentary appropriations for depreciable capital expenditures are recorded as deferred capital funding on the balance sheet, and are amortized on the same basis and over the same periods as the related capital assets. Parliamentary appropriations for working capital and non depreciable capital assets are credited to Proprietor's Equity.

(b) Program inventory

Program inventory consists of:

(i) Programs completed and in process of production or available for sale

Programs completed and in process of production or available for sale are stated at cost. Cost includes the cost of materials and services, and the share of labour and overhead expenses applicable to programs.

Program costs are charged to operations as the programs are broadcast, deemed unusable, or sold.

(ii) Film and script rights

The Corporation enters into contracts for film and script rights. As payments are made under the terms of each contract they are reflected in the accounts as prepaid film rights. The film rights are charged to operations in accordance with the approved program schedule or when deemed unusable.

(c) Capital assets

Capital assets are recorded at cost, less accumulated amortization. The cost of assets constructed by the Corporation includes material, direct labour and related overhead. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

—Buildings	33 years
—Technical equipment	
Transmitters and towers	20 years
Other	10 years
—Furnishings and office equipment	10 years
—Computers	5 years
—Automotive	5 years

Leasehold improvements are capitalized and amortized over the remaining terms of the respective leases to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate capital asset classification upon completion, and are then amortized according to the Corporation's policy.

(d) Deferred charges

Deferred costs incurred in the development of specialty channels and goodwill arising from the acquisition of broadcast undertakings are amortized over seven years based on a normal license period. Deferred costs incurred by joint ventures are amortized over a period of five years. Other deferred charges are amortized over the period of the respective agreements.

(e) Pension cost and obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, pro-rated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. The surplus on the introduction of this accounting policy, adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund is reflected in the balance sheet as a long-term deferred charge or deferred pension liability as the case may be.

(f) Employee termination benefits and vacation pay

Employee termination benefits and vacation pay are expensed as the benefits accrue to employees under their respective terms of employment.

Termination benefits are calculated on an actuarial basis taking into account the future expected payments, the probabilities of payment and discount to the valuation date. The present value of the projected cost is recorded as a liability.

Vacation pay is calculated at the salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

Since a major portion of the liabilities for these items represent costs which will be funded mainly from appropriations received from the Government of Canada in the future, these items do not have an impact upon the Corporation's operating surplus or deficit on a government funding basis.

(g) Other post-employment benefits

In addition to pension and termination benefits, the Corporation provides life insurance benefits to its retired employees. The costs related to this benefit are expensed as incurred by the Corporation during the post-retirement period.

(h) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Employee termination benefits, deferred pension liability and contingent liabilities are the most significant items where estimates are used. Actual results could differ from those estimates.

3. Change in accounting policy

Prior to 1998, capital funding received from the Government of Canada was recorded as Proprietor's Equity. Parliamentary appropriations for depreciable capital expenditures are now recorded as deferred capital funding on the Balance Sheet, in order to conform to C.I.C.A. Public Sector Accounting and Auditing Board Exposure Draft on Accounting for Government Assistance, and are amortized on the same basis and over the same periods as the related capital assets. The effect of this change in accounting policy, which has been applied retroactively, is a reduction in Proprietor's Equity and an increase in deferred capital funding on the balance sheet of $746,897,000 (1997—$791,877,000), and an increase in net results of operations for the year of $135,120,000 (1997—$116,741,000). This accounting change does not have any impact upon the Corporation's operating surplus or deficit on a government funding basis.

4. Parliamentary appropriations

Parliamentary appropriations approved and the amounts received by the Corporation during the year are as follows:

(a) Parliamentary appropriations approved and received

	1998	1997
	(in thousands of dollars)	
Approved appropriations for Operating funding		
—Annual funding	769,014	818,329
—Transfer from capital funding [1]		36,120
—Funding for RCI (Note 5)	(9,360)	
	759,654	854,449
—Frozen allotment to offset the 1995-96 repayable advance including imputed interest thereon [2]	(56,669)	
	702,985	854,449
Funding for downsizing program		41,975
Capital funding (Note 9)	105,740	140,829
— Less transfer to operating funding [1]		36,120
— Less transfer to 1998-99 (1997-98) fiscal year [1]	15,600	8,000
	90,140	96,709
Working capital funding	4,000	4,000

(1) In the event that significant changes in current year requirements occur, amounts are transferred from one vote to another or reprofiled from one fiscal year to the next through Appropriation Acts tabled in the House of Commons.

(2) In 1995-96, the Corporation received a $50 million repayable advance to be recovered in future years through reduced funding levels.

(b) Reconciliation of net results of operations to government funding basis

The Corporation receives a significant portion of its funding through Parliamentary appropriations, which is based primarily on cash flow requirements. Items recognized in the Statement of Operations and Proprietor's Equity in one year may be funded through Parliamentary appropriations in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a generally accepted accounting principles basis. These differences are outlined below:

	1998	1997
	(in thousands of dollars)	
Net results of operations for the year	(35,510)	93,774
Items expensed but funded in other years	30,429	(52,820)
Net results of operations on a government funding basis	(5,081)	40,954
Government funding surplus (deficit), beginning of the year	34,525	(6,429)
Government funding surplus (deficit), end of the year	29,444	34,525

5. Speciality services and Radio Canada International

(a) Specialty services

The Corporation operates CBC Newsworld, Réseau de l'information (RDI) and Galaxie under license conditions that the operations be reported on an incremental cost and revenue basis. All services use previous years' surplus carryforwards to fund current year activities. At March 31, the cumulative net operating surplus carried forward to future years' activities for CBC Newsworld totalled $2.2 million ($0.5 million for 1997) and for RDI, $33,000 ($7,000 for 1997). 1997-98 was Galaxie's first year of operations and the results are according to plan.

	March 31, 1998			March 31, 1997		
	Revenue	Expense	Net	Revenue	Expense	Net
			(in thousands of dollars)			
CBC Newsworld	55,816	54,122	1,694	54,677	54,817	(140)
RDI	31,263	31,237	26	30,598	30,603	(5)
Galaxie	304	737	(433)			
	87,383	86,096	1,287	85,275	85,420	(145)

(b) Funding for Radio Canada International

	1998	1997
	(in thousands of dollars)	
Parliamentary appropriation (Note 4)	9,360	
Contribution agreement with Government of Canada	6,000	5,179
Funding for Radio Canada International	15,360	5,179

6. Downsizing program

The Corporation completed its cost reduction efforts to address the impact of the budget cuts announced by the Government of Canada. The downsizing program resulted in the departure of employees through incentive programs and lay-offs.

	1998	1997
	(in thousands of dollars)	
Employee termination and other costs	(8,431)	18,991
Pension expense [1]	26,767	(38,303)
	18,336	(19,312)

The Corporation has requested further assistance from the Government of Canada to fund the cost of the downsizing program.

[1] The pension costs of the downsizing program were adjusted upward by $26.8 million (1997—38.3 million reduction) to reflect management's revised cost estimates for terminations and retirements.

7. Income and large corporations taxes

The Corporation is a prescribed federal Crown corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the *Income Tax Act* (Canada). The Corporation is not subject to provincial income taxes on its own activities.

The provision for income and large corporations tax is comprised of:

	1998	1997
	(in thousands of dollars)	
Current tax expense (recovery)	(17,815)	4,624
Deferred taxes	20,523	(1,665)
	2,708	2,959

The Corporation's net provision for tax results primarily from large corporations tax.

The Corporation has net timing differences of $75.7 million (1997—$58.1 million) resulting from items reported for tax purposes in different periods than for accounting purposes, the benefit of which has not yet been recognized in the financial statements. These timing differences generally result from the accrual of pension and severance pay costs, and capital cost allowance on its long term capital lease where funding for the lease obligation is provided over several years. Capital cost allowance is not claimed on other capital assets, as the related capital funding is usually received in full in the same year in which the asset is acquired.

8. Capital assets

	Cost	Accumulated amortization	1998 Net book value	1997 Net book value
	(in thousands of dollars)			
Land	35,515		35,515	35,560
Buildings	359,123	192,132	166,991	166,475
Technical equipment	1,043,599	614,633	428,966	446,376
Furnishings, office equipment and computers	71,950	49,263	22,687	29,693
Automotive	32,862	21,208	11,654	8,945
Leasehold improvements	7,221	5,601	1,620	2,394
Property under capital leases	511,652	76,692	434,960	450,246
Uncompleted capital projects	39,753		39,753	45,410
	2,101,675	959,529	1,142,146	1,185,099

Amortization expense of $15.3 million (1997—$14.8 million) relate to property under capital lease.

9. Deferred capital funding

	1998	1997
	(in thousands of dollars)	
Balance, beginning of year	791,877	811,909
Parliamentary appropriation for depreciable capital expenditures (Note 4)	90,140	96,709
Amortization of deferred capital funding	(135,120)	(116,741)
Balance, end of year	746,897	791,877

10. Joint venture activities

The Corporation has net equity of $4.0 million (1997—$5.4 million) in joint business ventures which is accounted for using the proportionate consolidation method.

11. CBC pension plan

The Corporation maintains a contributory defined benefit pension plan covering substantially all employees of the CBC. Retirement benefits are based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last ten years of employment.

The accrued pension benefits are determined using the projected benefit method prorated on service and management's best estimate of future economic events.

Employees are required to contribute a percentage of their pensionable salary to the Plan, with the Corporation providing the balance of the funding, as required, based on actuarial valuations, which are made at least on a triennial basis.

Projections from an actuarial valuation prepared for accounting purposes show an estimated present value of accrued pension benefits of $2,673.9 million as at March 31, 1998 (1997—$2,601.0 million) which includes $16.2 million (1997—11.4 million) of unfunded retirement benefits. The actuarial value of the pension fund assets as at March 31, 1998 was $2,926.1 million (1997—$2,765.2 million).

	1998	1997
	(in thousands of dollars)	
Current service cost	39,121	35,728
Accrued interest on net pension plan assets	(12,076)	(6,411)
Amortization of past service gains (net)	(22,381)	(16,669)
Adjustment for plan curtailment due to workforce reduction		
	26,767	(38,303)
CBC pension expense	31,431	(25,655)
Deferred pension liability, beginning of year	97,748	155,314
Pension expense	31,431	(25,655)
Pension plan contributions and benefit payments	(31,540)	(31,911)
Deferred pension liability, end of year	97,639	97,748

12. Obligations under capital leases

Capital leases consist mainly of premises occupied by CBC in Toronto.

Future minimum lease payments and obligations are as follows:

	(in thousands of dollars)
1999	33,099
2000	33,084
2001	33,039
2002	33,039
2003	33,039
Thereafter to 2027	809,449
Total future minimum payments	974,749
Deduct imputed interest (7.53%) and executory costs	585,554
Obligation under capital lease	389,195
Less current portion	3,850
Long term portion	385,345

CBC owns the land on which the Toronto Broadcast Centre is located.

13. Commitments

(a) Program related and other

As at March 31, 1998, commitments for sports rights amounted to $583.5 million; procured programs, film rights and co-productions amounted to $70.9 million and capital assets amounted to $9.8 million for total commitments of $664.2 million.

(b) Operating leases

Future annual payments related to operating leases are as follows:

	(in thousands of dollars)
1999	47,076
2000	47,367
2001	38,253
2002	33,692
2003	11,853
2004-2062	5,242
Total future payments	183,483

(c) Joint venture activities

The Corporation's proportionate share of commitments related to joint venture activities totalled $5.5 million.

14. Contingencies

Various claims and legal proceedings have been asserted or instituted against the Corporation, including some, which demand large monetary damages or other relief, which could result in significant expenditures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimate. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established provisions in the near term. Any such costs will be charged to operations as incurred.

15. Related party transactions

The Corporation is related in terms of common ownership and enters into transactions with other Government departments, agencies and Crown corporations in the normal course of business on normal trade terms applicable to all individuals and enterprises. Transactions with the Government of Canada are outlined in Note 4.

16. Net change in non-cash working capital balances

	1998	1997
	(in thousands of dollars)	
Cash provided by (used for)		
Accounts receivable	(74,140)	(1,066)
Program inventory	8,553	9,035
Prepaid expenses	(13,733)	12,305
Deferred income taxes	20,523	(1,665)
Accounts payable and accrued liabilities	32,667	(641)
	(26,130)	17,968

17. Financial instruments

Short-term investments, accounts receivable and accounts payable are valued at cost, which approximates fair market value. The Corporation invests in the short-term money market (maximum term to maturity 91 days). Securities are limited to those that are 100% guaranteed by the Government of Canada. The overall portfolio yield for the fiscal year ending March 31, 1998 was 3.72% (4.78% at March 31, 1997).

18. Year 2000

The Corporation may experience the effects of the Year 2000 Issue before, on, or after January 1, 2000. The effects on operations and financial reporting, if not addressed, may range from minor errors to significant systems failure, which could affect CBC's ability to conduct normal business operations. While plans have been developed to meet internal requirements, with regular reports made to senior management and the Board of Directors, it is not possible to ensure that all aspects of the Year 2000 Issue, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

19. Comparative figures

Certain of the 1997 comparative figures have been reclassified to conform to the curent year's presentation.

CANADIAN COMMERCIAL CORPORATION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canadian Commercial Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The statements have been prepared in accordance with generally accepted acounting principles, using management's best estimates and judgements, where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices which are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices are intended to ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and adherence to corporate policies and statutory requirements.

The Audit Committee oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Corporation's external auditors have full and free access to the Audit Committee to discuss the results of their work and to express their concern and opinions.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation, and for issuing his report hereon.

Robert G. Wright
President

Mike Pantazi
Director, Risk and Financial Services

AUDITOR'S REPORT

TO THE MINISTER FOR INTERNATIONAL TRADE

I have audited the balance sheet of the Canadian Commercial Corporation as at March 31, 1998 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Commercial Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1998

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997
Cash and short-term deposits (Note 3)	46,640	55,050
Accounts receivable (Note 4)	179,871	123,703
Advances to suppliers	40,664	35,382
Progress payments to suppliers	39,890	37,404
	307,065	251,539

LIABILITIES	1998	1997
Accounts payable and accrued liabilities (Note 4)	186,459	135,640
Advances from customers	62,166	59,236
Progress payments from customers	38,389	36,715
Provision for additional contract costs (Note 5)	1,522	1,642
Employee termination benefits	1,012	1,054
	289,548	234,287
Contingencies (Note 7)		
EQUITY OF CANADA		
Contributed surplus	10,000	10,000
Retained earnings	7,517	7,252
	17,517	17,252
	307,065	251,539

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

ROBERT G. WRIGHT
Chairman and President

ANDRÉ TRÉPANIER
Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Revenues		
Contract billings (Note 8)	953,253	904,637
Interest and other income	3,504	2,907
	956,757	907,544
Expenses		
Cost of contract billings (Note 8)	953,253	904,637
Additional contract costs	261	254
Administrative expenses	13,716	12,966
	967,230	917,857
Net results of operations before parliamentary appropriation	(10,473)	(10,313)
Parliamentary appropriation	10,738	10,941
Net results of operations after parliamentary appropriation	265	628
Retained earnings at beginning of year	7,252	6,624
Retained earnings at end of year	7,517	7,252

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGE IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Financing activities		
Parliamentary appropriation	10,738	10,941
Operating activities		
Receipts from customers	900,708	831,262
Interest and other income received	3,504	2,907
Payments to suppliers	(910,360)	(832,475)
Administrative payments	(13,000)	(13,448)
Cash used in operating activities (Note 12)	(19,148)	(11,754)
Decrease in cash and short-term deposits	(8,410)	(813)
Cash and short-term deposits at beginning of year	55,050	55,863
Cash and short-term deposits at end of year	46,640	55,050

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Nature, organization and funding

The Corporation was established in 1946 by the *Canadian Commercial Corporation Act* and is an agent Crown corporation listed in Part I of Schedule III to the *Financial Administration Act*.

The Corporation generally acts as the prime contracting agency when other countries and international organizations wish to purchase products and services from Canada. Contracts are made with foreign governments, international organizations and other buyers. Corresponding supply contracts are entered into with Canadian firms by the Corporation.

The Government has provided the Corporation with $10 million as contributed capital. The Corporation also has authority to draw loans from the Consolidated Revenue Fund in amounts up to a total of $10 million as required to supplement its working capital. Annually, the Corporation seeks funding for its operations through a parliamentary appropriation.

The Corporation is not subject to the provisions of the *Income Tax Act*..

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles. A summary of significant policies follows:

(a) Contracts

The Corporation records its contract billings, and related costs, when a delivery has taken place thus passing title to the customers, or, in the case of progress payments, upon receipt of progress billings from suppliers for work performed.

The Corporation uses the percentage-of-completion method when accounting for contracts involving progress payments. The cost of contract billings and related revenues are recognized on receipt of progress billings from suppliers. Since title has not yet passed to customers, the Corporation recognizes the progress payments made to suppliers as an asset and the progress payments received from customers as a liability. The related progress payments are reduced when deliveries are accepted by the customer.

Progress payments from customers and to suppliers, represent payments made by foreign buyers and to Canadian exporters respectively on contracts where the partial recoupment of costs (usually up to 80%), associated with the work performed on a contract leading up to delivery, is allowed. These payments are not loans. Given that the payment flows through to the Canadian exporter, the liabilities are essentially offset on the asset side of the balance sheet.

Advances from customers and to suppliers, represent a down payment made at the outset of the contract, before any work has been performed, as agreed upon by the foreign buyer. These payments are not loans.

Additional contract costs incurred primarily as a result of suppliers failing to fulfil their obligations to the Corporation are determined on a contract-by-contract basis. These costs are recorded in the statement of operations in the year in which the non-performance is identified and the additional costs to be incurred by the Corporation are reasonably determinable.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average exchange rates for the month in which the transactions occur. Exchange gains and losses arising from translation of foreign currencies are included in other income.

Contracts with foreign customers and corresponding contracts with Canadian suppliers are generally entered into in the same currency. The Corporation uses this and other techniques in order to effectively transfer currency risk to the supplier.

The Corporation maintains some working capital in other currencies to facilitate the cash flow between foreign customers and Canadian suppliers.

(c) Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Account.

(d) Employee termination benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

The liability for employee termination benefits is estimated by management based on current entitlements.

3. Cash and short-term deposits

As at March 31, 1998, cash and short-term deposits include:

	Year ended March 31	
	1998	1997
	(in thousands of dollars)	
Unencumbered balances		
U.S. dollars	22,808	24,225
Pound Sterling	650	535
Canadian dollars	1,036	3,283
	24,494	28,043
Held in trust		
U.S. dollars	8,455	2,867
Australian dollars	678	5,229
Deutschemarks	2,156	8,844
Canadian dollars	10,857	10,067
	22,146	27,007
Total		
U.S. dollars	31,263	27,092
Other currencies	3,484	14,608
Canadian dollars	11,893	13,350
	46,640	55,050

Interest earned on cash and short-term deposits held in trust is credited to the customer. The Corporation invests in short-term deposits in Canadian Schedule A banks. Average term to maturity is less than 21 days. The overall portfolio yield at March 31, 1998 was 5.2% (1997—4.9%). Cash and short-term deposits are valued at cost which approximates the market value.

4. Accounts receivable and accounts payable

Accounts receivable are due on normal trade terms and are non-interest bearing.

Accounts payable are due on normal trade terms, except those due to small and medium sized enterprises which are paid within 15 days. In neither case is interest payable.

As at March 31, 1998 the Corporation has net accounts receivable from foreign governments of $179,361,000 (1997—$123,260,000).

5. Provision for additional contract costs

The Corporation may incur additional contract costs should suppliers not fulfil the terms of their contracts. The Corporation has recorded a provision of $1,522,000 as of March 31, 1998 (1997—$1,642,000), representing management's best estimate of the additional costs which will be incurred by the Corporation to meet its contractual obligations.

6. Contractual obligations

The Corporation is obligated to fulfil numerous contracts with foreign customers. The total contract value remaining to be fulfilled approximates $1.1 billion as at March 31, 1998 (1997—$1.3 billion).

Under the Progress Payment Program the Corporation also indemnifies participating banks for amounts they have advanced to the Corporation's suppliers. The Corporation has a claim through the bank to offset these indemnities. The amount of outstanding indemnities as of March 31, 1998 is $4,719,000 (1997—$6,400,000).

7. Contingencies

The Corporation was served with a statement of claim wherein the plaintiff, a supplier, seeks substantial damages arising out of alleged losses from contracts completed in 1993. Based on the advice from legal counsel, the potential liability of the Corporation and the consequent damages arising from any such liability are, at present, not determinable.

In December 1997, the Corporation was served with a statement of claim wherein a foreign buyer alleged that goods manufactured by a Canadian supplier did not meet the specifications contained in a contract signed in 1992. In accordance with the terms of the back-to-back domestic contract executed between the Canadian supplier and the Corporation, the Canadian supplier has taken the lead in retaining and instructing counsel to defend the matter and will also be responsible for indemnifying the Corporation in the event any damages are awarded against it. While the damages being claimed by the plaintiff are significant, the external counsel has advised the Corporation that the plaintiff is having difficulty in substantiating its allegations. The damages arising from this action are, at present, not determinable.

Amounts, if any, payable for either claim by the Corporation will be recorded in the year in which they can be determined.

8. Contract billings

Contract billings are distinct from Corporate business volume which is the term used to describe the total value of contracts and amendments signed during the year. Business volume for the year ended March 31, 1998 amounted to $1.020 billion (1997—$859 million).

The Corporation facilitates the sale of Canadian goods to foreign governments, international agencies and other buyers throughout the world. Contract billings were distributed as follows:

	Year ended March 31	
	1998	1997
	(in thousands of dollars)	
U.S. Government and buyers	628,363	581,134
Other foreign governments and buyers	298,560	315,957
United Nations Agencies	26,330	7,546
	953,253	904,637

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements.

(a) Public Works and Government Services Canada

Generally, Public Works and Government Services Canada provides contract management services to the Corporation at predetermined negotiated rates based, in part, on the amounts of contracts procured, and provides certain functions at cost. For the year ended March 31, 1998 the cost of these services amounted to $3,701,000 and are included in the administrative expenses.

On one specific contract, Public Works and Government Services Canada provides the Corporation with contract management services at no cost to the Corporation. It is estimated that the cost of this service would approximate $1 million. The value of these services is not recorded in the Corporation's accounts.

(b) Department of Justice

The Department of Justice represents the Corporation in certain matters. The Corporation pays for legal fees and expenses incurred in connection with specific actions. For the year ended March 31, 1998 the cost of legal fees and expenses for specific actions amounted to $608,000 (1997—$484,000) and are included in the administrative expenses.

As a result of all related party transactions, the amounts due from and to these parties are $240,000 (1997—$165,000) and $1,098,000 (1997—$273,000) and are included in the accounts receivable and accounts payable respectively.

In addition, government departments provided the Corporation with certain administrative services without charge. The value of these services is not recorded in the Corporation's accounts.

10. Insurance

While the Corporation follows the practice of self-insuring, specific insurance is carried relating to fraud, computer hardware and software, office furniture and fixtures, and travel accident and medical.

11. Lease commitments

In March 1995, the Corporation entered into a ten-year lease agreement for office space effective October 1, 1995. The annual payments for the duration of the lease will approximate $775,000.

12. Reconciliation of net results of operations before parliamentary appropriation to cash used in operating activities

	Year ended March 31	
	1998	1997
	(in thousands of dollars)	
Net results of operations before parliamentary appropriation	(10,473)	(10,313)
Adjustments to reconcile net results to net cash used by operating activities		
(Increase) decrease in accounts receivable	(56,168)	151
(Increase) decrease in advances to suppliers	(5,282)	35,167
(Increase) decrease in progress payments to suppliers	(2,486)	26,160
Increase in accounts payable and accrued liabilities	50,819	10,663
Increase (decrease) in advances from customers	2,930	(46,095)
Increase (decrease) in progress payments from customers	1,674	(26,874)
Increase (decrease) in provision for additional contract costs	(120)	(700)
(Decrease) increase in employee termination benefits	(42)	87
Total adjustments	(8,675)	(1,441)
Cash used in operating activities	(19,148)	(11,754)

13. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could effect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Comparative figures

Certain 1996-97 figures have been reclassified to conform with the current year presentation

CANADIAN DAIRY COMMISSION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1998
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADIAN DAIRY COMMISSION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canadian Dairy Commission and all information in this annual report are the responsibility of management. The statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements provided.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to Commission policies and statutory requirements. The process includes management's annual communication to employees of Treasury Board's guidelines on conflict of interest and code of conduct.

The Audit Committee of the Canadian Dairy Commission, made up of the Commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Commission's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The transactions and financial statements of the Commission have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Gilles Prégent,
Chairman

Paul Simard,
Director of Finance

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE AND AGRI-FOOD

I have audited the balance sheet of the Canadian Dairy Commission as at July 31, 1997 and the statement of operations and funding by producers and the statement of dairy support program operations and costs funded by the Government of Canada for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at July 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and the by-laws of the Commission.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
September 26, 1997

BALANCE SHEET AS AT JULY 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Cash	753	
Accounts receivable		
Trade (Note 3)	8,231	13,911
Government of Canada (Dairy Support Program)	23,947	18,645
Recoverable expenses from the pooling account	2,871	127
Producer levies		7,502
Inventories (Note 4)	126,345	105,821
Ocean containers (net of $548 accumulated amortization)	1,071	
	163,218	146,006
Pooling account (Note 5)		
Cash		1,427
Due from provincial marketing boards and agencies (Note 6)	14,793	11,140
	14,793	12,567
	178,011	158,573

LIABILITIES	1997	1996
Accounts payable and accrued liabilities (Note 7)	38,815	33,734
Subsidies payable to producers	23,808	18,638
Loans from Government of Canada (Note 8)	103,387	75,266
	166,010	127,638
Pooling account (Note 5)		
Bank indebtedness (Note 9)	3,274	
Due to provincial marketing boards and agencies (Note 6)	8,648	12,440
Due to Canadian Dairy Commission	2,871	127
	14,793	12,567
(Deficiency) excess at end of year (Note 10)	(2,792)	18,368
	178,011	158,573

The accompanying notes and schedule are an integral part of these financial statements.

Approved:

GILLES PRÉGENT
Chairman

LOUIS BALCAEN
Vice-Chairman

PAUL SIMARD
Director of Finance

STATEMENT OF OPERATIONS AND FUNDING BY PRODUCERS FOR THE YEAR ENDED JULY 31, 1997
(in thousands of dollars)

	1997	1996
Export sales	207,261	212,042
Cost of sales	210,175	243,442
Loss on export sales	2,914	31,400
Domestic sales	84,814	90,945
Cost of sales	81,900	92,064
(Margin) loss on domestic sales	(2,914)	1,119
Total loss on sales		32,519
Assistance and expenses	21,157	21,991
Total cost of operations	21,157	54,510
Less portion of administrative expenses funded by the Government of Canada	2,297	2,339
Net cost of operations funded by producers	18,860	52,171
Funding by producers (Note 11)	15,800	64,550
(Deficiency) excess of funding of net cost of operations	(3,060)	12,379
Excess at beginning of year	18,368	41,611
	15,308	53,990
Refunds of previous years' excess (Note 10)	18,100	35,622
(Deficiency) excess at end of year	(2,792)	18,368

The accompanying notes and schedule are an integral part of these financial statements.

STATEMENT OF DAIRY SUPPORT PROGRAM OPERATIONS AND COSTS FUNDED BY THE GOVERNMENT OF CANADA FOR THE YEAR ENDED JULY 31, 1997
(in thousands of dollars)

	1997	1996
Subsidies to producers of industrial milk and cream	150,021	184,958
Administrative expenses	2,297	2,339
Costs of production and dairy policy studies	877	347
Total costs funded by the Government of Canada	153,195	187,644

The accompanying notes and schedule are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS JULY 31, 1997

1. The Commission

The Canadian Dairy Commission (the "Commission"), is an agent Crown corporation named in Part I, Schedule III to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. The objects of the Commission, as established by the *Canadian Dairy Commission Act* (CDC Act), are "to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

The Commission administers the dairy support program funded by the Government of Canada, under which it makes subsidy payments to producers. In cooperation with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, the Commission undertakes the management and administration of operations funded by producers. The results of the Commission's operations in each of these areas are presented in the Statement of Dairy Support Program Operations and Costs Funded by the Government of Canada, and in the Statement of Operations and Funding by Producers, respectively, in order to distinguish the accountability relationships for them.

The Commission purchases all butter and skim milk powder tendered to it at either the Canadian support price or at the international market price, depending on the intended resale markets. While a major portion of the butter purchased by the Commission is later resold in the domestic market, most of the skim milk powder is in excess of domestic needs and is exported. The Commission sells production surplus to domestic requirements in the form of whole milk products, skim milk powder and butter on international markets.

On behalf of the industry, since August 1995, the Commission has administered a pricing and pooling of market returns system which provides milk components to further processors and exporters through processors at competitive prices.

2. Significant accounting policies

Inventories

Inventories are valued at the lower of cost or estimated net realizable value. An allowance for writedown is recorded when cost exceeds the latter.

Allowance for losses on outstanding purchase commitments

The Commission establishes an allowance for losses on outstanding purchase commitments based on current contracts for export sales.

Foreign currency translation

Substantially all sales in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the exchange rates provided therein. Sales in foreign currencies that are not hedged are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Commission's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which services are rendered and represent the total pension obligations of the Commission.

Ocean containers

Ocean containers are recorded at cost. Amortization is calculated on the straight line basis over the expected 24 month period of usage for the containers.

3. Accounts receivable—Trade

Most of the trade accounts receivable are in foreign currencies and their Canadian cash value has been ascertained through the use of foreign exchange contracts as further explained in Note 12.

These foreign accounts receivable are guaranteed by letters of credit, are payable on demand and are non-interest bearing. The carrying amount of each receivable approximates fair value because of their short maturity.

4. Inventories

	1997	1996
	(in thousands of dollars)	
Cost		
Butter	73,014	68,022
Skim milk powder	43,636	34,639
Other dairy products	11,117	7,003
	127,767	109,664
Less allowance for writedown		
Butter (mainly unsalted)		2,393
Skim milk powder	1,073	1,450
Other dairy products	349	
	1,422	3,843
Net book value	126,345	105,821

5. Pooling account

With the introduction of a classified pricing and pooling of market returns system, the Commission established a bank account and a $10 million line of credit with a member of the Canadian Payments Association in order to provide bridge financing and ensure the efficient operation of the pool. In addition to the Class 5 pooling introduced in August 1995, the Commission uses the pooling account for the operations of the all milk (fluid and industrial) pooling market returns system since August 1996.

As producer monies enter and leave the pool as equalization payments from and to provincial marketing boards and agencies, the line of credit ensures that payments can be made promptly. During the year, certain provincial marketing boards and agencies have contributed approximately $78 million (1996—$38 million) into the pool. These contributions have been used to make equalization payments to the other provincial marketing boards and agencies net of their share of the Commission's administrative and other operating expenses recoverable from the pooling account.

6. Due from (due to) provincial marketing boards and agencies

The due from (due to) provincial marketing boards and agencies are receivable (payable) within a month and are non-interest bearing. The carrying amount of each approximates fair value because of their short term maturity.

7. Accounts payable and accrued liabilities

These amounts are incurred in the normal course of business, are usually payable within a month and are non-interest bearing. The carrying amount of each approximates fair value because of their short term maturity.

8. Loans from Government of Canada

Loans from Government of Canada, to a maximum of $300 million, are available to finance operations. Individual loans are repayable within one year from the date the loan is made. Principal and accrued interest are repaid regularly during the year when funds are available. The interest rates during the year were in accordance with normal rates established for Crown corporations by the government and varied from 4.8626% to 2.8153% (1996—7.5225% to 4.5842%). The fair value of the loan approximates its carrying value.

Loan transactions for the year are summarized as follows:

	1997	1996
	(in thousands of dollars)	
Balance at beginning of year	75,266	69,334
Borrowings	234,131	307,399
Payments	(206,010)	(301,467)
Balance at end of year	103,387	75,266
Accrued interest at end of year	529	434

9. Bank indebtedness

The bank indebtedness incurred under the line of credit is due on demand and bears interest at prime which on July 31, 1997 was 4.75% per annum. The carrying value of the bank indebtedness approximates its fair value.

10. Deficiency/Excess at end of year

The deficiency at end of year is made up of an accumulated deficit of $6.6 million relating to commercial sales (export and domestic) and an accumulated surplus of $3.8 million relating to the funding of the normal level of butter (Note 11). These amounts will be carried forward and applied against future funding of their respective operations.

During the course of the year, the Commission has refunded to producers $18.1 million which was the remainder of the excess of financing by levies for the 1995–96 dairy year and was approved by the CMSMC at its meeting in September 1996.

11. Funding

Government of Canada (Dairy Support Program)

Agriculture and Agri-Food Canada provides funding to the Commission for subsidy payments to producers of industrial milk and cream shipments, produced to meet domestic requirements. The rate of subsidy payments was $1.055 per kilogram of butterfat or $3.80 per hectolitre of milk containing 3.6 kilograms of butterfat (1996—$1.283 or $4.62 respectively).

As part of the federal Budget of February 1995, the rate of subsidy payments have been reduced by another 15% for the dairy year 1996-97. In addition and as a result of a June 1997 cabinet decision, subsidy payments will be gradually phased out with five annual rate reductions of $0.76 per hectolitre starting February 1, 1998. As of February 1, 1998, the rate will be $0.844 per kilogram of butterfat or $3.04 per hectolitre.

The Government of Canada has funded $2.3 million (1996—$2.3 million) of the Commission's administrative expenses of $5.2 million (1996—$5.0 million), as well as professional services relating to cost of production and dairy policy studies.

Funding by producers

Producers are responsible for the costs of operations not funded by the Government of Canada and are comprised of the following:

Expenses recoverable from pooling activities

	1997	1996
	(in thousands of dollars)	
Dairy product assistance programs and promotion	8,771	
Administrative expenses and other charges	1,838	1,667
Total producers' share of charges to the pooling account	10,609	1,667
Funding of the normal levels of butter inventory		
—Pooling account	5,191	
—In-quota levies		5,180
In-quota levies		57,703
Total	15,800	64,550

The pooling account is charged for the producers' share of the Commission's administrative expenses associated with marketing activities and costs for domestic assistance programs, as well as the interest and banking expenses for maintaining the pooling account. Total producers' share of charges to the pooling account for the year were $10.6 million (1996—$1.7 million).

The pooling account also includes an amount of $5.2 million (1996—$5.2 million) which represents collections of $0.12 (1996—$0.12) per hectolitre of industrial milk to cover the eligible costs associated with actual butter inventories up to normal levels determined by the Commission and a portion of its administrative expenses.

These operations can be summarized as follows:

	1997	1996
	(in thousands of dollars)	
Excess funding over eligible costs at beginning of year	2,219	1,730
Funding	5,191	5,180
Eligible costs	(3,643)	(4,691)
Excess funding over eligible costs at end of year	3,767	2,219

12. Forward exchange contracts

As part of its foreign exchange risk management, the Commission enters into forward exchange contracts with regard to a major portion of its export sales contracts. At the end of the dairy year the Commission's outstanding forward exchange contracts totalled the equivalent of approximately $30 million Canadian (1996—$100 million Canadian) representing amounts in US dollars, Deutschemarks and French Francs. These contracts mature from August to December 1997. The maturity dates of the forward exchange contracts correspond to the estimated dates when the Commission should be receiving the foreign currency proceeds arising from the execution of the concerned export sales contracts.

13. Long-term lease

The Commission is committed under a long-term lease for office accommodation ending in 2003. The lease contains escalation clauses regarding maintenance costs and taxes. The remaining minimum lease payments totalled $1,145,290 at year-end.

The minimum lease payments for the next five years are as follows:

1997–98	173,968
1998–99	189,915
1999–00	191,365
2000–01	191,365
2001–02	191,365

14. Representatives' fees

The Commission has used the services of representatives for the sale of dairy products on the export market. Total fees for the year were $4.6 million (1996—$4.4 million) and are included in cost of sales.

15. Purchase commitments

As at July 31, 1997, the Commission was committed to purchase butter and skim milk powder produced prior to that date at Canadian support prices and other dairy products produced prior to that date at negotiated contract prices. These commitments amounted to approximately $8.1 million (1996—$7.2 million).

16. Related party transactions

Government departments provided the Commission with certain administrative services without charge. The cost of these services is not recorded in the Commission's accounts.

17. Financial statement presentation

A statement of changes in financial position has not been included because, in the opinion of management, it would not provide any meaningful additional information. In addition, certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

SCHEDULE OF MARKETING OPERATIONS BY PRODUCT
FOR THE YEAR ENDED JULY 31, 1997
(in thousands of dollars)

	1997					1996				
	Butter	Skim milk powder	Evaporated milk	Other products*	Total	Butter	Skim milk powder	Evaporated milk	Other products*	Total
Export sales	26,310	80,892	56,467	43,592	207,261	36,146	122,285	35,488	18,123	212,042
Cost of sales	27,782	80,273	56,564	45,556	210,175	40,326	150,380	34,615	18,121	243,442
Loss (margin) on export sales	1,472	(619)	97	1,964	2,914	4,180	28,095	(873)	(2)	31,400
Domestic sales	77,343	7,471			84,814	84,965	5,980			90,945
Cost of sales	76,526	5,374			81,900	85,354	6,710			92,064
(Margin) loss on domestic sales	(817)	(2,097)			(2,914)	389	730			1,119
Total (margin) loss on sales	655	(2,716)	97	1,964		4,569	28,825	(873)	(2)	32,519
Assistance and expenses										
Dairy product assistance										
—Domestic	38	8,063	312		8,413	(1,608)	7,752	463	(196)	6,411
—Export	37	56			93	125	115	9	438	687
Carrying charges	3,983	916	356	366	5,621	4,359	1,362	166	56	5,943
Inventory writedown		1,074	90	258	1,422	2,394	1,450			3,844
Loss on purchase commitments		142	14	124	280					
Promotion	44	32			76	62	264			326
Recovery of doubtful accounts									(363)	(363)
	4,102	10,283	772	748	15,905	5,332	10,943	638	(65)	16,848
Administrative expenses					5,179					5,012
Pool interest and bank charges					49					31
Donation					24					100
Total assistance and expenses					21,157					21,991
Total cost of operations					21,157					54,510

*Include whole milk powder and cheese

CANADIAN FILM DEVELOPMENT CORPORATION

MANAGEMENT REPORT

The financial statements of the Canadian Film Development Corporation are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements have been prepared in accordance with generally accepted accounting principles and, where appropriate, include estimates based on the experience and judgement of management. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent with the financial statements.

Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with the *Financial Administration Act* and its regulations, the *Canadian Film Development Corporation Act*, the by-laws and policies of the Corporation, the Memoranda of Understanding and, the Contribution Agreements with the Department of Canadian Heritage.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting as stated above. The Board exercises its responsibilities through the Audit Committee, which consists of directors who are not officers of the Corporation. The Audit Committee reviews the quarterly financial statements, as well as the annual financial statements and related reports; the Committee meets with the external auditors annually and, may make recommendations to the Board of Directors with respect to these and/or related matters.

The external auditor, the Auditor General of Canada, conducts an independent examination of the financial statements and reports to the Corporation and to the Minister of Canadian Heritage.

François Macerola
Executive Director

Danny Chalifour
Director, Finance and Administration

Montreal, Canada

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Film Development Corporation as at March 31, 1998 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Canadian Film Development Corporation Act* and the by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 29, 1998

BALANCE SHEET MARCH 31, 1998
(with comparative figures for 1997)
(in thousands of dollars)

ASSETS	1998	1997
Current assets		
Loans (Note 3)	2,889	9,022
Investments		265
Receivable from Canada (Note 4)	38,112	34,332
Accounts receivable	3,913	3,816
Prepaid expenses	628	376
	45,542	47,811
Loans (Note 3)	3,489	2,037
Investments	34	
Capital assets (Note 5)	2,232	2,494
	51,297	52,342

LIABILITIES AND EQUITY OF CANADA	1998	1997
Current liabilities		
Accounts payable and accrued liabilities	11,729	20,365
Provision for employee termination benefits	757	697
Deferred lease inducements	110	138
Equity of Canada	38,701	31,142
Commitments (note 8)		
Contingencies (note 10)		
	51,297	52,342

See accompanying notes to financial statements.

Approved by the Board:

ROBERT DINAN
Chairman

Approved by Management:

FRANÇOIS MACEROLA
Executive Director

STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 1998
(with comparative figures for 1997)
(in thousands of dollars)

	Investments	Recoveries on investments	1998 Net amount	1997 Net amount
Assistance expenses				
Production and development				
Canada television and cable production fund (Note 6)	111,631	(10,736)	100,895	73,446
Feature film fund	15,897	(4,485)	11,412	18,874
Commercial production fund	7,345	(1,317)	6,028	4,004
Production revenue sharing program	3,622	(987)	2,635	5,279
Official co-productions	1,528	(362)	1,166	2,208
Multimedia	573	(7)	566	277
Other	489	61	550	515
	141,085	(17,833)	123,252	104,603
Distribution and marketing				
Feature film distribution fund	11,845	(6,423)	5,422	8,293
National and international marketing	1,855	(504)	1,351	1,734
	13,700	(6,927)	6,773	10,027
Versioning and subtitling	2,563	(1,710)	853	1,405
Complementary activities				
Grants to Canadian festivals	1,520		1,520	1,595
Industrial and professional development	1,452		1,452	1,653
Pre Professional development	1,325		1,325	
Participation to foreign festivals	572		572	593
Participation to foreign markets	532		532	481
Advertising, promotion & publications	432		432	424
Other	282		282	185
	6,115		6,115	4,931
	163,463	(26,470)	136,993	120,966
Operating expenses (Note 7)			14,354	16,018
Cost of operations for the year			151,347	136,984
Revenue				
Interest on loans			(715)	(411)
Other interest			(208)	(129)
Management fees			(37)	(37)
			(960)	(577)
Net cost of operations for the year			150,387	136,407

See accompanying notes to financial statements.

STATEMENT OF EQUITY OF CANADA
YEAR ENDED MARCH 31, 1998
(with comparative figures for 1997)
(in thousands of dollars)

	1998	1997
Balance at the beginning	31,142	35,604
Parliamentary appropriation	81,146	92,445
Contributions by the Department of Canadian Heritage	76,800	39,500
Net cost of operations for the year	(150,387)	(136,407)
Balance at the end	38,701	31,142

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1998
(with comparative figures for 1997)
(in thousands of dollars)

	1998	1997
Liquidity provided by (used in)		
Operating activities		
Net cost of operations for the year	(150,387)	(136,407)
Items not affecting liquidity		
Increase (decrease) in the allowance for loan impairment	(249)	1,715
Amortization	650	981
Loss (profit) on disposal of capital assets	20	(8)
Increase in the provision for employee termination benefits	60	7
Decrease in deferred lease inducements	(28)	(28)
	(149,934)	(133,740)
Net change in non liquidity items of working capital related to operations	(8,985)	7,776
	(158,919)	(125,964)
Investing activities		
Loans	(5,268)	(10,943)
Reimbursements of loans	10,198	14,684
Investments	(34)	(4)
Reimbursements of investments	265	493
Acquisition of capital assets	(423)	(700)
Proceeds from disposal of capital assets	15	32
	4,753	3,562
Financing activities		
Parliamentary appropriation	81,146	92,445
Contributions by the Department of Canadian Heritage	76,800	39,500
	157,946	131,945
Receivable from Canada		
Increase in liquidity	3,780	9,543
Balance at the beginning	34,332	24,789
Balance at the end	38,112	34,332

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1998

1. Authority and activities

The Corporation was established in 1967 by the *Canadian Film Development Corporation Act* with the objective of fostering and promoting the development of a feature film industry in Canada. The Corporation has since been charged with the administration of the Canadian Broadcast Program Development Fund (Television Fund) established on July 1, 1983 within the framework of the Broadcasting Strategy for Canada as well as with the management of various new programs established under the National Film and Video Policy of May 1984. The Act was amended in June 1994 to grant the Corporation the authority to guarantee loans.

In September 1996, the Minister of Canadian Heritage created the Canada Television and Cable Production Fund (CTCPF). Created to foster a partnership between the government and the industry, this new fund brings together the Corporation's television fund and the cable distributors production fund. Two financial assistance programs constitute the CTCPF: the equity investment program and the license fee program. The Corporation was given the responsibility for the management of the equity investment program.

The Corporation is a Crown corporation subject inter alia to the provisions of Part VIII of the *Financial Administration Act* as it read before its repeal in 1984 and as if it continued to be named in Schedule C of the Act.

2. Significant accounting policies

(a) Financing sources of the Corporation

The Corporation obtains its funds mainly from the Government of Canada by means of the parliamentary appropriation and the contributions from the Department of Canadian Heritage. This financing comprises an amount for the Canada Television and Cable Production Fund and another amount for the development of a feature film industry. The parliamentary appropriation and the contributions from the Department of Canada Heritage are credited to the Equity of Canada.

(b) Liquidity and amount receivable from Canada

The financial operations of the Corporation are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the financial statements, its liquidity consists of a receivable from Canada. The amount receivable from Canada is comprised of the unused cumulative receipts and the disbursements made after year end and related to current year operations.

(c) Investments and allowance for losses

Investments include all forms of assistance granted for feature films and Canadian programming, excluding loans. Investments are accounted for as follows:

- Investments granted in return for a share in operating revenues and accompanied by pre-established obligations to reimburse on a term generally not exceeding three years are shown on the balance sheet at their face value, less an allowance for losses. The allowance for losses is determined by examining each investment individually and is charged to operations as assistance expenses.
- Investments granted in return for a share in operating revenues other than those accompanied by pre-established obligations to reimburse as well as non-recoverable investments are charged to operations as assistance expenses. These expenses are charged to operations in the year in which the funds are paid or have become payable.

  Recoveries on investments, other than those recognized on the balance sheet, are credited to operations as a reduction of assistance expenses in the year in which the funds are received or have become receivable. Any proceeds in excess of the related investment are accounted for as revenues.

(d) Loans and allowance for losses

The Corporation grants loans for the financing of feature films and Canadian programming. Loans are shown on the balance sheet at the principal amount increased by accrued interest receivable, net of an allowance for impairment. The allowance for losses is determined by examining each loan individually and is charged to operations as assistance expenses. The evaluation is based on the receivables taken as security as well as the borrower's financial situation.

A loan is considered to be impaired as a result of a deterioration in credit quality to the extent that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected in accordance with the terms of the loan agreement. When a loan is considered impaired, the carrying amount of the loan is reduced to its estimated realizable value by discounting the expected cash flows at the effective interest rate inherent in the loan.

(e) Interest revenue

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest in accordance with the terms of the original loan agreement ceases.

(f) Other interest revenue

Other interest revenue is recognized on an accrual basis and represents the amounts charged on all amounts, other than loans, due to the Corporation, less an allowance for losses. This allowance for losses is determined by examining each amount individually.

(g) Capital assets

Capital assets are recorded at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer installations	Diminishing-balance	20%
Software	Straight-line	5 years
Furniture and equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	Terms of the leases

(h) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned by the employees.

(i) Pension plan

Admissible employees participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. This contribution represents the total liability of the Corporation. Contributions in respect of current services and admissible past services are expensed during the year in which payments are made. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Loans and allowance for losses

The interest charged on loans does not exceed the prime rate, plus 2%. The loans have a term generally not exceeding three years.

As at March 31, the loans are detailed as follows:

	Amount	Allowance for losses	1998 Net amount	1997 Net amount
	(in thousands of dollars)			
Loans	6,378		6,378	11,059
Impaired loans	1,004	(1,004)		
	7,382	(1,004)	6,378	11,059
Less current portion	3,810	(921)	2,889	9,022
	3,572	(83)	3,489	2,037

The allowance for losses is detailed as follows:

	1998	1997
	(in thousands of dollars)	
Balance at beginning	2,079	610
Write-offs	(166)	(147)
Recoveries	(660)	(99)
Allowance	(249)	1,715
Balance at end	1,004	2,079

4. Receivable from Canada

As at March 31, the receivable from Canada is detailed as follows:

	1998	1997
	(in thousands of dollars)	
Unused cumulative receipts	26,524	14,524
Disbursements made after year end and related to current year operation	11,588	19,808
	38,112	34,332

5. Capital assets

	Cost	Accumulated amortization	1998 Net	1997 Net
	(in thousands of dollars)			
Computer installations	3,733	2,797	936	1,216
Software	3,179	2,559	620	446
Leasehold improvements	1,342	933	409	504
Furniture and equipment	2,060	1,793	267	328
	10,314	8,082	2,232	2,494

6. Canada Television and Cable Production Fund — Equity Investment Program

The Equity Investment Program is financed by a contribution from the Department of Canadian Heritage and the annual operating budget of the Corporation. The cost of operations for the program is detailed as follows:

	Corporation	Department	1998 Total	1997 Total
	(in thousands of dollars)			
Investments				
Canadian programming	37,282	57,300	94,582	79,403
Feature films		17,049	17,049	9,594
	37,282	74,349	111,631	88,997
Recoveries on investments	(10,641)	(95)	(10,736)	(15,551)
	26,641	74,254	100,895	73,446

7. Operating expenses

	1998	1997
	(in thousands of dollars)	
Salaries and employee benefits	8,161	8,360
Rent, taxes, heating and electricity	2,033	2,068
Professional services	1,048	1,310
Office expenses	1,006	1,083
Travel	764	657
Amortization	650	981
Advertising and publications	323	224
Telecommunications	230	194
Hospitality	77	85
Relocation	62	84
Employee departure programs		972
	14,354	16,018

8. Commitments

(a) Projects

As at March 31, 1998, the Corporation is committed contractually to advance funds as loans and investments:

	Corporation	Department	Total
	(in thousands of dollars)		
Canada Television & Cable Production Fund—Equity Investment Program	8,420	17,067	25,487
Other programs	10,558		10,558
	18,978	17,067	36,045

In addition the Corporation has accepted to finance projects that may call for disbursements totalling $604,507. Under a production revenue sharing program, the Corporation has reserved funds totalling $1,389,079 as at March 31, 1998 for the financing of projects yet to be submitted under certain conditions.

(b) Leases

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

	Total
	(in thousands of dollars)
1999	2,181
2000	1,926
2001	1,943
2002	1,936
2003	1,979
2004-2007	531
	10,496

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

10. Contingencies

The Corporation guarantees the reimbursement of loans or debts incurred by third parties with financial institutions within the loan guarantee program. The total amount of the Corporation's guarantees cannot exceed, at any time, $25,000,000. The interest rate cannot exceed the lending institutions' prime rate plus 2%, and eligible security must be obtained from the borrower. The guarantees as at March 31, 1998 totalled $2,106,740 (1997—$1,587,800). A provision for losses is recorded when management can estimate that a loss is likely to occur.

In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. In the opinion of management, the losses, if any, which may result from the settlement of the matters are not likely to be material and accordingly no provision has been made in the accounts of the Corporation. In the event that such expenses were to occur, they would be recognized as period costs.

11. Fair value of financial assets and liabilities

The carrying amounts reported for investments, accounts receivable, accounts payable and accrued liabilities and commitments on projects approximate their fair value due to the relatively short periods to maturity of the instruments.

The following table presents the carrying amounts and fair values of the Corporation's other financial instruments:

	1998		1997	
	Carrying amount	Fair value	Carrying amount	Fair value
	(in thousands of dollars)			
Short-term loans	2,889	2,694	9,022	8,660
Long-term loans	3,489	3,104	2,037	1,849

The fair values of loans have been established by discounting the future contractual cash flows under current loan arrangements, at discount rates equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

12. Comparative figures

Some of the 1997 comparative figures have been reclassified to conform with the presentation adopted for 1998.

CANADIAN MUSEUM OF CIVILIZATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles, and the integrity and objectivity of the data in these financial statements are Management's responsibility.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Museums Act* and the by-laws of the Corporation.

The Board of Trustees is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee ahs reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, examines the financial statements and reports to the Minister of Canadian Heritage, who is responsible for the Canadian Museum of Civilization.

George F. MacDonald
President and Chief Executive Officer

J. (Joe) Geurts
Chief Operating Officer

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Museum of Civilization as at March 31, 1998 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for unrestricted contributions and interest income on investments arising from such contributions as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 15, 1998

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997 (Restated Note 3)
Current		
Cash and short-term investments (Note 4)	11,525	13,800
Accounts receivable (Note 5)	2,223	1,813
Inventories	1,156	1,311
Prepaid expenses	1,267	115
	16,171	17,039
Restricted cash and investments (Note 6)	1,739	1,340
Collection (Note 7)	1	1
Capital assets (Note 8)	13,712	12,947
	31,623	31,327

LIABILITIES	1998	1997 (Restated Note 3)
Current		
Accounts payable and accrued liabilities (Note 9)	7,275	8,577
Deferred revenues	86	151
	7,361	8,728
Accrued employee termination benefits	1,969	2,106
Deferred contributions (Note 10)	1,739	1,340
	11,069	12,174
EQUITY		
Equity of Canada	20,554	19,153
	31,623	31,327

The accompanying notes form an integral part of the financial statements.

Approved by Management:

GEORGE F. MacDONALD
President and Chief Executive Officer

JOE GEURTS
Chief Operating Officer

Approved by the Board of Trustees:

ADRIENNE CLARKSON
Chairwoman

PIERRE DUFOUR
Trustee

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Revenue		
General admission fees	1,681	1,923
Boutique sales	1,532	1,736
CINÉPLUS	1,269	1,670
Donations	806	446
Parking	619	660
Facility rental and concessions	603	652
Interest on cash and investments (Note 11)	518	602
Publications	422	208
Grants	241	41
Royalties	171	52
Other	905	953
	8,767	8,943
Expenses		
Personnel costs	24,396	25,776
Professional and special services	6,737	7,024
Exhibit design and fabrication	4,267	4,274
Property taxes	3,475	
Repairs and maintenance	3,376	4,622
Amortization	2,839	2,379
Utilities	1,723	1,749
Furniture and fixtures	1,462	1,774
Cost of goods sold	1,147	1,334
Transportation	1,100	972
Building leases	1,012	1,590
Marketing and advertising	882	1,052
Communications	806	1,089
Collection acquisitions	396	92
Rentals	159	127
CINÉPLUS films	151	218
Other	123	73
	54,051	54,145
Net result of operations before government funding	(45,284)	(45,202)
Parliamentary appropriation	46,685	44,214
Net income (loss)	1,401	(988)

The accompanying notes form an integral part of the financial statements.

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Balance at beginning of year As previously stated	16,381	17,575
Increase due to the retroactive application of the change in accounting policy (Note 3)	2,772	2,566
Balance at beginning of year As restated	19,153	20,141
Net income (loss)	1,401	(988)
Balance at end of year	20,554	19,153

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Operating activities		
Net income (loss)	1,401	(988)
Adjustment for non-cash items		
Amortization net of disposal of capital assets	2,839	2,379
Employee termination benefits	(265)	162
	3,975	1,553
Change in non-cash operating assets and liabilities	(2,646)	603
Cash generated by operating activities	1,329	2,156
Investing activities		
Acquisition of capital assets	(3,604)	(3,954)
Decrease in cash and short-term investments	(2,275)	(1,798)
Balance at beginning of year	13,800	15,598
Balance at end of year	11,525	13,800

The accompanying notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Mission and mandate

The Canadian Museum of Civilization was established on July 1, 1990 by the *Museums Act*. The Canadian Museum of Civilization is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Canadian War Museum is a component of the Canadian Museum of Civilization.

The mission, as stated in the *Museums Act*, is as follows:

"to increase, throughout Canada and internationally, interest in, knowledge and critical understanding of and appreciation and respect for human cultural achievements and human behaviour by establishing, maintaining and developing for research and posterity a collection of objects of historical or cultural interest, with special but not exclusive reference to Canada, and by demonstrating those achievements and behaviour, the knowledge derived from them and the understanding they represent."

2. Significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting policies. Significant accounting policies follow.

(a) Inventories

Inventories, which consist of materials for the boutiques and publications, are valued at the lower of cost and net realizable value.

(b) Collection

Objects purchased for the collection of the Corporation are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of accounts.

(c) Capital assets

Capital assets are valued at cost, net of accumulated amortization.

Amortization is calculated using the straight-line method, over the estimated useful lives of assets:

Leasehold and building improvements	10 years
Office furniture and equipment	8 years
Technical and informatics equipment	5 and 8 years
Motor vehicles	5 years

Since the buildings are not owned by the Corporation, no amortization is taken.

(d) Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. The Corporation matches these contributions equally for each employee, for the year in which services are rendered. These contributions are expended during the year in which services are rendered, and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination, as provided for under labour contracts and conditions of employment. The cost of these benefits is expended in the year in which they are earned by the employee.

(f) Contributions

The Corporation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(g) Parliamentary appropriation

Parliamentary appropriation for operating and capital expenditures is recorded in the statement of operations in the fiscal year for which it is approved.

3. Change in accounting policy

Effective April 1, 1997, the Corporation changed its method of accounting for unrestricted contributions and interest income on investments arising from such contributions. As disclosed in 2(f), unrestricted contributions are recognized as revenue when received. Interest income on investments arising from such contributions are recognized as revenue when earned. Prior to 1998, these amounts were recognized as revenue in the year in which the related expenses were incurred. This change in accounting policy has been applied retroactively and the financial statements of the prior year have been restated.

The effect on operations is as follows :

	1998	1997
	(in thousands of dollars)	
Increase in revenue		
Donations	192	101
Interest on cash and investments	100	105
Increase in net operating results	292	206

The effect on the balance sheet is as follows :

Decrease in deferred contributions	292	206
Increase in equity of Canada	292	206

The opening equity of Canada balance as at April 1, 1997 has been increased by $2,566,000 and a similar offsetting cumulative decrease has been made to deferred contributions.

4. Cash and short-term investments

The Corporation invests in the short-term money market. The overall portfolio yield as at March 31, 1998 was 3.8% (1997 4.4%). All instruments held in short-term investments are rated R1 or better by the Dominion Bond Rating Service. The average term to maturity is 47 days.

5. Accounts receivable

	1998	1997
	(in thousands of dollars)	
Refundable taxes	613	731
Trade accounts	447	942
Parliamentrary appropriation	1,117	113
Other	46	27
	2,223	1,813

6. Restricted cash and investments

Restricted cash and investments arise from contributions received from individuals and corporate entities for a specified purpose, and are managed in accordance with the donor's wishes and the by-laws of the Corporation.

7. Collection

The Corporation maintains the material culture collections of artifacts, objects, specimens and their related information. These collections are developed by various research divisions, as well as by staff of several sub or specialized museums. The collections are divided into the following eight discipline-related groups:

Ethnology—ethnographic and fine art collections principally related to North American First Peoples in post-European contact

Folk Culture—folk culture and fine craft collections illustrating the diversity of cultural influences on Canadian culture

History—collections which illustrate the experience of the common person as well as famous Canadians

Canadian Postal Museum—collections of philatelic, artwork and material culture which serve to illustrate the role of postal communication in defining and shaping a nation

Canadian Children's Museum—collections which emphasize intercultural understanding and experience, as well as supporting a rich animation programme

Living History—collection of properties, costumes and didactic resources which are used by animators, educators, and other staff to promote and enliven the Museum's programming

Canadian War Museum—collections of weapons and technological artifacts illustrating the development of military technologies, dress and insignia collections of uniforms, medals, accoutrements and regalia of the Canadian Armed Forces and its allies, and war art collections of paintings, drawings, prints and sculptures from the Canadian War Artist programmes and modern art works illustrating Canadian Peacekeeping efforts

Archaeology—archaeological collections of material culture, physical anthropology, flora and fauna recovered from dig sites and principally illustrating indigenous North American culture prior to European contact

The artifact collection forms the largest part of the assets of the Corporation, and is presented in the balance sheet at a nominal value of $1,000, due to the practical difficulties of determining a meaningful value for these assets.

8. Capital assets

	Cost	Accumulated amortization	1998 Net book value	1997 Net book value
	(in thousands of dollars)			
Leasehold and building improvements	19,455	8,724	10,731	9,700
Office furniture and equipment	5,569	4,943	626	999
Technical equipment	7,811	6,660	1,151	1,372
Informatics equipment	6,663	5,510	1,153	843
Motor vehicles	160	109	51	33
	39,658	25,946	13,712	12,947

Capital assets do not include the land and buildings occupied by the Corporation since they are owned by the Government of Canada.

9. Accounts payable and accrued liabilities

	1998	1997
	(in thousands of dollars)	
Trade accounts payable	4,264	5,597
Accrued salaries and vacation pay	2,333	2,093
Government departments and agencies	363	444
Current portion of accrued employee termination benefits	315	443
	7,275	8,577

10. Deferred contributions

Deferred contributions represent unspent externally restricted contributions and related investment income.

Changes in the deferred contributions balance are as follows:

	1998	1997
	(in thousands of dollars)	
Balance at beginning of year As restated (Note 3)	1,340	577
Add contributions received in the year	970	1,069
Add deferred investment income	43	39
Less amount recognized as revenue	(614)	(345)
Balance at end of year	1,739	1,340

11. Interest on cash and investments

Interest on cash and investments is reported as follows:

	1998	1997
	(in thousands of dollars)	
Income earned on unrestricted resources	494	602
Income earned on restricted resources	67	39
Total interest on cash and investment earned in the period	561	641
Less amounts deferred	43	39
Total interest on cash and investment recognized as revenue	518	602

12. Related party transactions

The Corporation receives, without charge, collections management and auditing services from different government departments and agencies. The cost of these services are not reflected in the financial statements.

In addition to those related party transactions, disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

13. Commitments

As at March 31, 1998 the Corporation has entered into long-term contracts for informatics, property leases and building maintenance services with a remaining value of $8,309,000. The future minimum payments are as follows:

	(in thousands of dollars)
1998-99	3,991
1999-00	2,864
2000-01	1,454

14. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

CANADIAN MUSEUM OF NATURE

MANAGEMENT'S RESPONSIBILITY OF FINANCIAL REPORTING

Management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements were prepared in accordance with generally accepted accounting principles. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

The Board of Trustees is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit and Finance Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, the Corporation's internal auditors and the Auditor General of Canada to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls, and other relevant financial matters. The Audit and Finance Committee has reviewed the financial statements with the Auditor General of Canada and has submitted its report to the Board of Trustees which has approved the financial statements.

The financial statements have been audited by the Auditor General of Canada. His report offers an independent opinion on the financial statements to the Minister of Canadian Heritage.

Joanne DiCosimo
President and Chief Executive Officer

Colin C. Eades
Vice President, Corporate Services
and Chief Operating Officer

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Museum of Nature as at March 31, 1998 and the statements of operations and equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 15, 1998

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997
Current		
Cash and short-term investments (Note 3)	3,064	5,143
Accounts receivable		
Trade	387	822
Government departments and agencies	937	1,953
Inventory	25	46
Prepaid expenses	795	476
	5,208	8,440
Restricted cash and short-term investments (Notes 3, 4)	794	7,873
Collections (Note 5)	1	1
Capital assets (Note 6)	38,408	39,604
	44,411	55,918

LIABILITIES	1998	1997
Current		
Accounts payable and accrued liabilities		
Trade	2,454	2,644
Government departments and agencies	472	5,675
Natural Heritage Building	40	3,239
Current portion—obligation under capital lease(Note 7)	133	115
Current portion—due to Department of Canadian Heritage (Note 7)	319	
Deferred revenue and parliamentary appropriation	267	2,165
Provision for termination benefits	129	454
	3,814	14,292
Obligation under capital lease (Note 7)	33,830	34,026
Due to Department of Canadian Heritage (Note 7)	1,418	
Provision for termination benefits	707	670
Deferred contributions (Note 8)	323	537
	40,092	49,525
ENDOWMENT (Note 9)	250	250
EQUITY OF CANADA	4,069	6,143
	44,411	55,918

The notes form an integral part of the financial statements.

Approved by the Board of Trustees:

FRANK LING
Chairman of the Board of Trustees

R. KENNETH ARMSTRONG
Chairman of the Audit and Finance Committee

Approved by Management:

COLIN C. EADES
Vice President, Corporate Services and Chief Operating Officer

LYNNE LADOUCEUR, CA
Senior Full Time Financial Officer

STATEMENT OF OPERATIONS AND EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Revenue		
Commercial operations (Note 11)	932	1,021
Contributions	393	1,340
Cost recovery		1,184
Educational programmes	179	263
Scientific services	100	47
Interest income	239	588
Other	81	24
	1,924	4,467
Expenses		
Personnel costs	8,793	10,124
Severance costs	1,166	1,444
Interest on capital lease obligation	3,459	1,664
Operation and maintenance of buildings	2,331	1,574
Professional and special services	2,329	2,413
Stonework project costs	1,922	5,000
Amortization	1,548	1,797
Real property leases and taxes	1,330	2,502
Marketing and communications	1,023	891
Information management infrastructure and systems	944	1,223
Material and equipment	791	913
Exhibits	562	622
Travel	354	428
Freight and cartage	160	1,065
Repairs and maintenance	89	78
Write-off of capital assets	89	498
Acquisition of objects for collections		7
Other	41	17
	26,931	32,260
Net result of operations before government funding	(25,007)	(27,793)
Parliamentary appropriation (Note 10)	22,933	28,303
(Deficiency) excess of revenue over expenses	(2,074)	510
Equity of Canada, beginning of year	6,143	5,633
Equity of Canada, end of year	4,069	6,143

The notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Operating activities		
(Deficiency) excess of revenue over expenses	(2,074)	510
Items not involving cash		
Amortization of capital assets	1,548	1,797
Employee termination benefits	(288)	125
Loss on disposal of capital assets	89	509
Decrease in deferred contributions	(214)	(1,007)
Decrease (increase) in restricted cash and short-term investments	7,079	(723)
Net change in non-cash working capital	(9,338)	1,698
	(3,198)	2,909
Financing activities		
Loan—Department of Canadian Heritage	1,737	
Obligation under capital lease	(178)	34,141
	1,559	34,141
Investing activities		
Acquisition of capital assets	(587)	(2,311)
Natural Heritage Building	147	(37,562)
Advances—Natural Heritage Building		1,412
	(440)	(38,461)
Decrease in cash and short-term investments	(2,079)	(1,411)
Cash and short-term investments, beginning of year	5,143	6,554
Cash and short-term investments, end of year	3,064	5,143

The notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1998

1. Authority and mission

The Canadian Museum of Nature was established by the *Museums Act* on July 1st, 1990, and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act.*

The Corporation's mission is to increase, throughout Canada and internationally, interest in, knowledge of and appreciation and respect for the natural world by establishing, maintaining and developing for research and posterity a collection of natural history objects, with special but not exclusive reference to Canada, and by demonstrating the natural world, the knowledge derived from it and the understanding it represents.

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles and reflect the following policies.

(a) Inventory

Inventory of publications is valued at the lower of cost or net realizable value.

(b) Capital assets

Capital assets are recorded at cost. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

Property under capital lease	35 years
Collection cabinets and compactors	35 years
Research equipment	10 years
Technical equipment	10 years
Furnishings and office equipment	10 years
Motor vehicles	5 years
Computer equipment and software	3 years

Major leasehold improvements are capitalized and amortized over the term of the respective leases to a maximum period of five years.

Material and equipment acquired for the purpose of the design, development and maintenance of exhibits are charged to operations in the year of acquisition.

(c) Collections

The Canadian Museum of Nature holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections form the largest part of the assets of the Corporation. The collections are shown as an asset on the balance sheet at a nominal value of $1,000 due to practical difficulties in determining a meaningful value for these assets.

Objects purchased for the collections are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of account.

(d) Pension plan

The Corporation's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are made both by the employees and the Corporation on an equal basis. These contributions represent the total pension obligations of the Corporation and are recognized in the accounts on a current basis.

The Corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination as provided under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees under the respective terms of employment.

The Corporation has established Early Departure Incentive (EDI) and Early Retirement Incentive (ERI) Programs consistent with those offered to the Public Service under Treasury Board Guidelines and which ended at March 31, 1998. The costs of such severance are disclosed in the financial statements, including proportional reimbursements from Treasury Board for severance liabilities accruing before July 1, 1990.

(f) Parliamentary appropriation

The parliamentary appropriation for operating and capital expenditures is recognized as revenue in the fiscal year for which it is approved. Parliamentary appropriations for specific projects are recognized on the Statement of Operations and Equity of Canada in the year in which the related expenses are recognized.

(g) Contributions

The Corporation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted are deferred and recognized as revenue in the year in which the related expenses are recognized. Restricted investment income is recognized as revenue in the year in which the related expenses are incurred.

Contributions received in a form other than cash are recorded at their fair value at the date they are received by the Corporation.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

3. Cash and short-term investments

The Corporation invests operating and restricted funds in the short-term money market. The overall portfolio yield as at March 31, 1998 was 4.70% (1997 — 3.03%). Treasury policies for the Corporation limit investments to instruments held in short-term investments to a maximum of 36 months rated AA or better and guaranteed by the Government of Canada, a provincial government or the Royal Bank of Canada. The average term to maturity is 32.40 days. The cost of the portfolio approximates its fair market value.

4. Restricted cash and short-term investments

Restricted cash and short-term investments include deferred contributions, the Endowment and the unrecognized portion of the parliamentary appropriation for the Victoria Memorial Museum Building stonework project. Restricted cash accounts are managed in accordance with the donor's wishes and are invested in accordance with investment policies of the Corporation.

5. Collections

The Canadian Museum of Nature holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The natural history collections consist of over 10 million specimens and grew by 63,105 items this fiscal year. They are an exceptional scientific resource that is available nationally and internationally for research, exhibits and education. The collections are divided into four discipline-related groups, being:

- the Earth Sciences collection (minerals, rocks, gems, fossils)
- the Vertebrates collection (mammals, birds, fish, amphibians, reptiles)
- the Invertebrates collection (molluscs, insects, crustaceans, parasites, worms, others)
- the Botany collection (algae, vascular plants, mosses, lichens)

The stewardship of the collection is the responsibility of the Collections Division and is monitored by the Collections Advisory and Collections Development Committees. The Museum has taken a major step in the preservation of its collections by moving them into a new state-of-the-art Natural Heritage Building in Aylmer, Quebec, acquiring new collection cabinets to replace all old sub-standard units and implementing several other upgrades to storage and risk management procedures. During the cleanup for the move, some surplus specimens were deaccessioned, being transferred to other institutions, sent for destruction or sold.

6. Capital assets

			1998	1997
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Land	505		505	505
Property under capital lease	35,040	1,983	33,057	34,192
Collection cabinets and compactors	3,522	201	3,321	3,422
Computer equipment and software	2,631	2,334	297	135
Research equipment	1,380	1,236	144	208
Furnishings and office equipment	1,269	521	748	845
Leasehold improvements	1,778	1,531	247	208
Technical equipment	275	198	77	89
Motor vehicles	41	29	12	
	46,441	8,033	38,408	39,604

The Victoria Memorial Museum Building and grounds are owned by the Government of Canada and consequently are not included in capital assets.

7. Capital lease and secondary financing obligations

The Natural Heritage Building (NHB) houses the Canadian Museum of Nature natural history collections and administrative functions, on the Corporation's site in Aylmer, Quebec.

The Corporation is acquiring the building through a lease purchase agreement with a term of 35 years. It is committed to pay rent under all circumstances and in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all financing on the building. Management intends to completely discharge its obligation under the lease and obtain free title to the building in 35 years. In addition, in 1997-98, the Corporation secured financing for the additional construction and fit-up costs of the NHB with the Department of Canadian Heritage (DCH).

Future minimum lease and debt repayments, by year and in aggregate, under the financing obligations are as follows:

	Obligation under capital lease	Obligation under loan from DCH	Total financing obligations
	(in thousands of dollars)		
1999	3,500	377	3,877
2000	3,500	377	3,877
2001	3,500	377	3,877
2002	3,500	377	3,877
2003	3,500	377	3,877
Thereafter	99,750		99,750
Total minimum future payments	117,250[1]	1,885[2]	119,135
Deduct: Imputed interest	(83,287)	(148)	(83,435)
Present value of financing obligations	33,963	1,737	35,700

(1) The amounts payable under the capital lease are based on the fixed interest rate of 9.88%, for a period of 35 years, established at the time of signing the lease.

(2) The amounts payable under the loan from the Department of Canadian Heritage are based on the fixed interest rate of 4.27%, for a period of 5 years.

8. Deferred contributions

Deferred contributions represent unrecognized externally restricted donations and investment income. The changes in the deferred contribution balance and the components of this balance are as follows:

	1998	1997
	(in thousand of dollars)	
Beginning balance	537	1,544
Add contributions received during the year	161	333
Less amounts recognized as contributions	(375)	(1,340)
Ending balance	323	537
Deferred contributions are comprised of		
Funds restricted for research purposes	41	294
Funds restricted for programming purposes	217	175
Restricted endowment fund interest	65	68
Total deferred contributions	323	537

9. Endowment

The Corporation maintains an endowment in the principal amount of $250,000 received from Anne and Henry Howden, which included a significant entomological collection. The endowment was established to enable professional studies and research of entomological collections for the Museum.

The principal of the Systematic Entomological Endowment Fund can not be expended. Accumulated interest earned from the endowment must be expended for specified purposes and the residual balance totalled $64,600 at March 31, 1998 ($68,000 at March 31, 1997) which is included in deferred contributions (Note 8).

In the event that the Corporation decides not to maintain entomological collections, the Systematic Entomology Endowment Fund shall be transferred, along with any entomological collections, to the Royal Ontario Museum.

10. Parliamentary appropriation

	1998	1997
	(in thousands of dollars)	
Appropriation approved	22,757	27,131
Applied as follows		
Operating expenses	20,424	20,992
Stonework project	1,922	5,000
Capital acquisitions	587	2,311
Parliamentary appropriation recognized on the Statement of Operations and Equity of Canada	22,933	28,303
Add increase in Due to the Department of Canadian Heritage	1,737	
Less decrease in Deferred parliamentary appropriation	(1,913)	(1,172)
Total applied	22,757	27,131

11. Commercial operations

Commercial operations revenue is comprised as follows:

	1998	1997
	(in thousands of dollars)	
Boutique lease	42	50
Publishing revenues	125	147
Publishing royalties	47	93
Admission fees	335	338
Parking	165	194
Rental of facilities	218	199
Total commercial operations revenue	932	1,021

12. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

13. Contractual commitments

The Corporation has entered into agreements for the provision of services and equipment. The payments under these agreements are approximately as follows:

	1999	2000 and subsequent years
	(in thousands of dollars)	
Victoria Memorial Museum Building maintenance	889	889
Natural Heritage Building maintenance	777	777
Stonework project	180	
Systems and infrastructure agreement	178	688
Other commitments	804	361
	2,828	2,715

14. Comparative figures

The 1997 comparative figures have been reclassified to conform to the 1998 financial statement presentation.

CANADIAN RACE RELATIONS FOUNDATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Canadian Race Relations Foundation are the responsibility of management and have been approved by the board of directors. These financial statements have been audited by Hilborn Ellis Grant, Chartered Accountants.

In support of its responsibility, management has developed and maintained books of accounts, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the Foundation's resources are managed prudently, that its assets are safeguarded and controlled, and that its financial information is reliable. The Foundation carries out its responsibilities for the financial statements mainly through the Finance Committee. The Finance Committee meets with management and the external auditor to review internal controls, auditing and other relevant financial matters.

The Foundation has ended last year with a surplus attributable to many factors, including prudent financial management. The Foundation is still in its early development stage, setting up its infrastructure and the first programs; the Foundation officially opened its doors last November. Although the call for research proposals was issued in November 1997, due to the involvement of an external adjudication body in reviewing the proposals, allocation of funds was deferred until the following fiscal year. However, the Public Education Grants Program did incur its first expenditure at the end of the fiscal year. It is anticipated that program expenditures will increase significantly next year as the Foundation will have launched all its programs.

Lincoln Alexander
Chair

Nicole Beaudouin
Secretary-Treasurer

June 18, 1998

AUDITORS' REPORT

TO THE DIRECTORS OF CANADIAN RACE RELATIONS FOUNDATION

We have audited the statement of financial position of Canadian Race Relations Foundation as at March 31, 1998 and the statements of operations, changes in net assets and changes in financial position for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Hilborn Ellis Grant
Chartered Accountants

Toronto, Canada
June 5, 1998

STATEMENT OF FINANCIAL POSITION, MARCH 31, 1998

ASSETS	1998	1997
	$	$ (Note 10)
Current assets		
Cash	145,784	88,522
Investments (Note 3)	1,914,707	622,904
Income receivable	276,589	35,603
Government grant receivable		1,000,000
Other receivables	11,948	5,915
	2,349,028	1,752,944
Investments (Note 3)	24,000,000	24,000,000
Capital assets (Note 4)	132,843	41,276
	26,481,871	25,794,220

LIABILITIES	1998	1997
	$	$ (Note 10)
Current liabilities		
Accounts payable and accrued liabilities	22,312	52,542
Deferred contributions—government grants (Note 5)	566,682	1,384,932
NET ASSETS		
Net assets invested in capital assets	132,843	41,276
Net assets restricted for endowment (Note 6)	24,000,000	24,000,000
Net assets internally restricted for capital preservation (Note 7)	1,046,040	
Net assets internally restricted for reserve (Note 8)	713,994	
Unrestricted net assets		315,470
	25,892,877	24,356,746
	26,481,871	25,794,220

Approved on behalf of the Board:

LINCOLN ALEXANDER
Chair

NICOLE BEAUDOIN
Secretary-Treasurer

STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 1998

	Invested in capital assets	Restricted for endowment (Note 6)	Restricted for capital preservation (Note 7)	Restricted for reserve (Note 8)	Unrestricted for operations	1998 Total	1997 Total (Note 10)
	$	$	$	$	$	$	$
Balance, beginning of year	41,276	24,000,000			315,470	24,356,746	
Excess (deficiency)of revenues over expenses for year	(28,199)				1,564,330	1,536,131	315,470
Endowment contribution							24,000,000
Investment in capital assets	119,766				(119,766)		41,276
Internally imposed restrictions			1,046,040	713,994	(1,760,034)		
Balance, end of year	132,843	24,000,000	1,046,040	713,994		25,892,877	24,356,746

STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$ (Note 10)
Revenues		
Government grant (Note 5)	818,250	215,068
Interest and dividends	1,083,868	311,685
Gain on sale of investments	360,696	
	2,262,814	526,753
Expenses		
Advertising and recruiting	14,256	6,652
Amortization	28,199	5,584
Directors' fees	35,338	10,400
Information systems and development	40,693	
Insurance	1,909	1,610
Office and general	43,545	6,838
Professional fees	29,925	15,959
Public education	17,199	
Regional consultations	18,402	
Rent	54,700	5,003
Salaries and benefits	335,077	75,524
Staff relocation expenses	44,700	7,648
Telephone	11,593	3,333
Travel and accommodation	51,147	31,456
	726,683	170,007
Excess of revenues over expenses for year	1,536,131	356,746

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$ (Note 10)
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for year	1,536,131	356,746
Items not requiring a current cash payment (receipt)		
Amortization	28,199	5,584
Gain on sale of investments	(360,696)	
Government grant receivable	1,000,000	(1,000,000)
Deferred contributions—government grant	(818,250)	1,384,932
	1,385,384	747,262
Net change in non-cash working capital balances	(277,249)	11,024
	1,108,135	758,286
Investment activities		
Proceeds from sale of investments	119,068,848	
Purchase of investments	(119,999,955)	(24,622,904)
Additions to capital assets	(119,766)	(46,860)
	(1,050,873)	(24,669,764)
Financing activities		
Endowment contributions		24,000,000
Net increase in cash during year	57,262	88,522
Cash, beginning of year	88,522	
Cash, end of year	145,784	88,522

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Description of organization

Canadian Race Relations Foundation ("the Foundation") was established by way of federal government legislation (Bill C-63-"*The Canadian Race Relations Foundation Act*") in December 1990, proclaimed in October 1996, and commenced operations in November 1996. Subject to Bill C-63, the Governor in Council appoints the Foundation's Board of Directors and Executive Director.

The purpose of the Foundation is to facilitate, throughout Canada, the development, sharing and application of knowledge and expertise in order to contribute to the elimination of racism and all forms of racial discrimination in Canadian society.

The Foundation is classified as a registered charity under the *Income Tax Act* and, as such, is not subject to income tax, provided certain disbursement requirements are met.

2. Significant accounting policies

(a) Financial statement presentation

These financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants using the deferral method of reporting for contributions.

(b) Revenue recognition

Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred. Other contributions are recognized as revenue when received.

Endowment contributions are recognized as direct increases in net assets in the period received.

(c) Investments

Investments are recorded at the lower of average cost and market value.

(d) Investment transactions and income recognition

Investment transactions are accounted for on the trade date. Income from investments is recognized on the accrual basis. Interest is accrued based on the number of days the investment is held during the year. Dividends are accrued as of the ex-dividend date. Realized gains and losses from investment transactions and the unrealized appreciation or depreciation of investments are computed on an average cost basis.

(e) Capital assets

Capital assets are recorded at acquisition cost. Amortization is provided for based on the estimated useful life of the assets on a straight-line basis as follows:

Office furniture and equipment	5 years
Computer hardware	3 years
Computer software	3 years
Leasehold improvements	over term of lease

(f) Foreign currency translation

Transactions in a foreign currency have been translated to Canadian dollars at the rate of exchange prevailing at the month end closest to the transaction. The market value of investments quoted in foreign currencies and accounts denominated in foreign currencies have been translated to Canadian dollars at the rates of exchange prevailing at the year end. Gains and losses are taken into the current year's income.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998—*Continued*

3. Investments

	Average cost	Market value
	$	$
Total investment portfolio	25,914,707	27,368,667
Portion related to net assets restricted for endowment	24,000,000	24,000,000
Portion related to net assets internally restricted for capital preservation		1,453,960
	1,914,707	1,914,707

The portion of the investment portfolio related to net assets restricted for endowment is considered to be a non-current asset given that the underlying contributions are to be maintained permanently by the Foundation and are not available to fund its expenses.

4. Capital assets

	Cost	Accumulated amortization	1998 Net book value	1997 Net book value
	$	$	$	$
Office furniture and equipment	66,137	11,061	55,076	20,007
Computer hardware	69,491	16,073	53,418	11,230
Computer software	19,699	3,284	16,415	
Leasehold improvements	11,299	3,365	7,934	10,039
	166,626	33,783	132,843	41,276

5. Deferred contributions—government grants

During the year, the Foundation received $1,000,000 (1997—$600,000) in government grants from the Secretary of State (Multiculturalism) (Status of Women) to fund its start-up expenses net of capital asset amortization and to fund the acquisition of capital assets. These monies were received pursuant to a memorandum of agreement dated February 25, 1997. The unexpended portion of the total funds received up to March 31, 1998 has been deferred.

Government grants, which are considered to be restricted operating funds received or receivable in the current year that relate to the subsequent year, are as follows:

	1998	1997
	$	$
Balance, beginning of year	1,384,932	
Add:		
Government grants received or receivable during year		1,600,000
	1,384,932	1,600,000
Less:		
Start-up expenses incurred, excluding amortization	698,484	168,208
Purchase of capital assets	119,766	46,860
	818,250	215,068
Balance, end of year	566,682	1,384,932

Effective May 29, 1998, the above noted memorandum of agreement was amended to reflect additional funding commitments made by the Secretary of State (Multiculturalism) (Status of Women) to the Foundation. In respect of the funding of start-up expenses net of capital asset amortization and the funding of the acquisition of capital assets, additional government grants are to be received as follows:

Fiscal Year	Amount
	$
1998/99	750,000
1999/00	250,000

6. Net assets restricted for endowment

On formation, the Foundation received an initial endowment contribution of $24 million. The endowment contribution was comprised of $12 million, which was part of the Redress Agreement with the National Association of Japanese Canadians, and a matching contribution of $12 million from the federal government. This contribution was made in commemoration of members of the Japanese Canadian community who suffered injustices during and after World War II.

The Canadian Race Relations Foundation Act stipulates that this endowment contribution is to be used only for investment and is not available to fund the Foundation's activities. Investment income earned on these funds may be expended for the purpose of the Foundation and is reported as revenue of operations.

7. Net assets internally restricted for capital preservation

The Foundation during fiscal year 1998 established a capital preservation policy to facilitate the preservation of the net assets restricted for endowment at an annual rate of inflation. At March 31, 1998, the net assets restricted for endowment adjusted for inflation is $26,500,000 and the inflation component is $2,500,000.

This internal restriction is subject to variances based upon the unrealized appreciation in the value of investments at any point in time.

The balance as at March 31, 1998 is as follows:

	$
Unrealized appreciation in the value of investments (Note 3)	1,453,960
Operational surplus transfer	1,046,040
	2,500,000

8. Net assets internally restricted for reserve

The Foundation during fiscal year 1998 established a reserve policy to provide stability to the operations of the Foundation from year to year in the event of a shortfall in investment income. Funds that are allocated for specific programs but are not fully expended during a fiscal year may be drawn from the net assets internally restricted for reserve.

Operational surplus in excess of any transfer to the net assets internally restricted for capital preservation is transferred to the net assets internally restricted for reserve at the end of each fiscal year.

9. Lease commitments

The Foundation has a five year lease agreement for its office premises with the Minister of Public Works and of Supply and Services. The lease agreement provides for fixed annual rental payments of $63,898 during the period June 1, 1997 to May 31, 2002.

10. Comparative figures

The comparative figures were reported on by other auditors.

The comparative figures for the statements of operations, changes in net assets and changes in financial position are for the five month period from commencement of operations, November 1996, to March 31, 1997.

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

CANADIAN WHEAT BOARD, THE

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1998
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADIAN WHEAT BOARD, THE

MANAGEMENT REPORT

The financial statements of the Canadian Wheat Board together with other information contained in this annual report have been prepared by management, who have full responsibility for them, and approved by the Board. These statements reflect the results for the year ended July 31, 1997 and the financial status of the CWB as at that date.

Management's responsibility includes ensuring that the financial statements are prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied, and that appropriate systems of internal controls and formal policies and procedures are in place to ensure the integrity and reliability of accounting and financial reporting, as well as the safety of all of the organization's assets.

Deloitte & Touche, Chartered Accountants, the CWB's external auditors, have performed an independent examination of the financial statements in this report. Management has made available to the external auditors all financial records and related data.

The Canadian Wheat Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commissioners, along with the Chairman of the CWB Advisory Committee, act as an Audit Committee in exercising this responsibility. The committee meets with the external auditors to discuss the results of the audit and the evaluation of the CWB's internal controls. The Internal Audit Department, reporting directly to the Audit Committee, has a mandate to provide timely recommendations and assessments concerning the effectiveness of internal controls. The committee reviews the action taken by management with respect to the recommendations made by the internal and external auditors.

Donald E. Vernon, C.A.
Executive Director,
Finance and Treasurer

Adrian Measner
Executive Director,
Marketing

AUDITORS' REPORT

TO THE CANADIAN WHEAT BOARD

We have audited the financial statements of the Canadian Wheat Board set out as Exhibits I to IX and notes thereto which include the balance sheet at July 31, 1997 and the statements of operations and distribution of earnings to producers for the 1996-97 pool accounts for wheat, amber durum wheat, barley and designated barley for the period August 1, 1996 to completion of operations on September 30, 1997, the statement of cash flow for the year ended July 31, 1997, the statement of advance payments to producers under the *Prairie Grain Advance Payments Act* as at July 31, 1997, the statement of administrative and general expenses and allocations to operations for the year ended July 31, 1997, and the statement of special account transactions for the year ended July 31, 1997. These financial statements are the responsibility of the Canadian Wheat Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 1997 and the results of its operations and the changes in its financial position for the periods shown in accordance with generally accepted accounting principles.

Deloitte & Touche

Winnipeg, Canada
December 18, 1997

BALANCE SHEET AS AT JULY 31

EXHIBIT I

ASSETS	1997	1996
	$	$
Accounts receivable		
Credit sales (Note 3)	6,418,291,510	6,653,277,799
Completed sales	66,184,064	25,669,295
Prairie Grain Advance Payments Act	161,575,235	52,651,783
Other	5,907,272	21,433,734
	6,651,958,081	6,753,032,611
Stocks of grain (Note 4)	1,682,137,024	1,432,610,530
Deferred and prepaid expenses (Note 5)	38,127,819	51,440,276
Fixed assets (Note 6)	52,724,986	44,162,927
Total assets	8,424,947,910	8,281,246,344

LIABILITIES	1997	1996
	$	$
Borrowings (Note 7)	6,240,754,143	6,459,297,949
Accounts payable and accrued expenses (Note 8)	105,772,615	107,957,005
Liability to agents of the CWB (Note 9)	1,364,322,369	1,159,716,160
Liability to producers (Note 10)	703,327,514	545,233,825
Provision for final payment expenses (Note 11)	8,108,840	5,805,860
Special account—net balance of undistributed payment accounts (Note 12)	2,662,429	3,235,545
Total liabilities	8,424,947,910	8,281,246,344

Approved:

LORNE F. HEHN
Chief Commissioner

GORDON P. MACHEJ
Commissioner

RICHARD H. KLASSEN
Commissioner

DONALD E. VERNON
Executive Director, Finance and Treasurer

1996-97 POOL ACCOUNT—WHEAT
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1996 to completion of operations on September 30, 1997
(with prior year comparatives for the period ended July 31, 1996)

EXHIBIT II

	1996-97		1995-96	
	Amount	Rate per tonne	Amount	Rate per tonne
	$	$	$	$
Receipts from producers: Tonnes	19 756 578		14 352 453	
Revenue (Note 15)	4,230,897,275	214.151	3,812,102,708	265.606
Deduct operating costs				
Country elevator carrying charges	56,525,504	2.861	53,088,474	3.699
Terminal storage	14,944,608	0.756	8,309,959	0.579
Demurrage / Despatch	18,779,575	0.950	9,884,097	0.688
Additional freight—to terminals	38,131,697	1.930	25,677,413	1.789
—freight rate change	2,686,523	0.136	6,958,629	0.485
Drying	13,804,982	0.699	149,237	0.010
Interest and depreciation on CWB hopper cars	2,371,393	0.120	3,400,351	0.237
Administrative expenses	33,565,468	1.699	27,502,595	1.916
Interest earnings	(65,258,729)	(3.303)	(61,089,432)	(4.256)
	115,551,021	5.848	73,881,323	5.147
Earnings distributed to producers	4,115,346,254	208.303	3,738,221,385	260.459
Earnings distributed as follows				
Initial payments at delivery	3,707,842,403	187.676	2,918,509,781	203.346
Adjustment payments	176,336,478	8.926	662,262,615	46.143
Final payment	231,066,148	11.696	157,283,664	10.959
Rebate on producer cars	101,225	0.005	165,325	0.011
	4,115,346,254	208.303	3,738,221,385	260.459

1996-97 POOL ACCOUNT—AMBER DURUM WHEAT
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1996 to completion of operations on September 30, 1997
(with prior year comparatives for the period ended September 30, 1996)

EXHIBIT III

	1996-97		1995-96	
	Amount	Rate per tonne	Amount	Rate per tonne
	$	$	$	$
Receipts from producers: Tonnes	3 882 848		3 973 384	
Revenue (Note 15)	962,792,723	247.961	1,130,364,370	284.484
Deduct operating costs				
Country elevator carrying charges	11,965,467	3.082	14,386,754	3.621
Terminal storage	5,010,878	1.290	7,956,863	2.002
Demurrage/Despatch	1,294,828	0.333	(781,718)	(0.197)
Additional freight—to terminals	1,225,932	0.316	3,510,438	0.883
—freight rate change	604,658	0.156	1,304,605	0.328
Drying	2,180,510	0.562	78,839	0.020
Interest and depreciation on CWB hopper cars	466,060	0.120	941,365	0.237
Administrative expenses	6,251,570	1.610	8,004,750	2.015
Interest earnings	(8,883,675)	(2.288)	(9,334,782)	(2.349)
	20,116,228	5.181	26,067,114	6.560
Earnings distributed to producers	942,676,495	242.780	1,104,297,256	277.924
Earnings distributed as follows				
Initial payments at delivery	682,288,454	175.719	831,562,780	209.284
Adjustment payments	161,120,614	41.495	175,425,808	44.150
Interim payment			41,703,041	10.496
Final payment	99,260,014	25.564	55,592,731	13.991
Rebate on producer cars	7,413	0.002	12,896	0.003
	942,676,495	242.780	1,104,297,256	277.924

1996-97 POOL ACCOUNT—BARLEY
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1996 to completion of operations on September 30, 1997
(with prior year comparatives for the period ended July 31, 1996)

EXHIBIT IV

	1996-97		1995-96	
	Amount	Rate per tonne	Amount	Rate per tonne
	$	$	$	$
Receipts from producers: Tonnes	2 440 097		1 267 781	
Revenue (Note 15)	385,966,275	158.177	266,619,989	210.304
Deduct operating costs				
Country elevator carrying charges	9,362,874	3.837	4,261,033	3.361
Terminal storage	2,462,246	1.009	1,666,050	1.314
Demurrage/Despatch	4,090,147	1.677	283,322	0.223
Additional freight—to terminals	1,929,869	0.791	(635,706)	(0.501)
—freight rate change	232,271	0.095	1,080,912	0.853
Drying	3,493,943	1.432	13,027	0.010
Interest and depreciation on CWB hopper cars	292,886	0.120	300,360	0.237
Administrative expenses	4,163,495	1.706	2,442,236	1.926
Interest earnings	(7,678,940)	(3.147)	(5,970,870)	(4.710)
	18,348,791	7.520	3,440,364	2.713
Earnings distributed to producers	367,617,484	150.657	263,179,625	207.591
Earnings distributed as follows				
Initial payments at delivery	339,813,142	139.262	220,053,281	173.574
Adjustment payments	13,787,821	5.651	32,304,766	25.481
Final payment	14,006,741	5.740	10,808,345	8.526
Rebate on producer cars	9,780	0.004	13,233	0.010
	367,617,484	150.657	263,179,625	207.591

1996-97 POOL ACCOUNT—DESIGNATED BARLEY
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS

for the period August 1, 1996 to completion of operations on September 30, 1997
(with prior year comparatives for the period ended September 30, 1996)

EXHIBIT V

	1996-97		1995-96	
	Amount	Rate per tonne	Amount	Rate per tonne
	$	$	$	$
Receipts from producers: Tonnes	2 402 091		2 549 505	
Revenue (Note 15)	530,873,216	221.005	620,029,297	243.196
Deduct operating costs				
Country elevator carrying charges	599,100	0.250	243,513	0.096
Demurrage/Despatch	219,284	0.091	(6,929)	(0.003)
Additional freight—to terminals	25,582	0.011	8,495	0.003
—freight rate change	152,268	0.063	(33,653)	(0.013)
Interest and depreciation on CWB hopper cars	288,279	0.120	604,023	0.237
Administrative expenses	4,084,200	1.700	4,885,483	1.916
Interest earnings	(3,043,871)	(1.267)	(4,468,138)	(1.752)
	2,324,842	0.968	1,232,794	0.484
Earnings distributed to producers	528,548,374	220.037	618,796,503	242.712
Earnings distributed as follows				
Initial payments at delivery	436,485,500	181.711	493,505,162	193.569
Adjustment payments	65,696,042	27.350	80,823,962	31.702
Final payment	15,945,563	6.638	33,696,550	13.217
Producer contract storage	10,421,269	4.338	10,770,829	4.224
	528,548,374	220.037	618,796,503	242.712

STATEMENT OF CASH FLOW

for the year ended July 31

EXHIBIT VI

	1997	1996
	$	$
Cash flow from operating activities		
Cash received from the sale of grain	6,110,529,489	5,829,116,364
Interest earned	84,865,215	80,863,222
Cash paid for operating costs	(241,206,097)	(185,484,817)
Add items not requiring an outlay of cash—depreciation	5,221,774	4,745,328
Cash flow from operating activities before working capital changes	5,959,410,381	5,729,240,097
Changes in working capital	(69,001,523)	176,462,652
	5,890,408,858	5,905,702,749
Cash flow from other activities		
Decrease in accounts receivable—credit sales	234,986,289	78,278,156
Purchase of fixed assets	(13,783,833)	(1,603,649)
	221,202,456	76,674,507
Net cash flow before distribution	6,111,611,314	5,982,377,256
Cash distributed to producers		
Cash balance undistributed in prior year	(299,275,785)	(524,164,822)
Current year balances distributed to producers prior to July 31	(5,593,791,723)	(5,425,218,984)
	(5,893,067,508)	(5,949,383,806)
Net increase in cash	218,543,806	32,993,450
Borrowings at beginning of year	(6,459,297,949)	(6,492,291,399)
Borrowings at end of year	(6,240,754,143)	(6,459,297,949)

STATEMENT OF ADVANCE PAYMENTS TO PRODUCERS
UNDER THE *PRAIRIE GRAIN ADVANCE PAYMENTS ACT*
as at July 31

EXHIBIT VII

	Cash advances to producers	Advances repaid by producers	1997 Balance to be refunded by producers	1996 Balance to be refunded by producers
	$	$	$	$
Balance to be refunded by producers				
1988-89 and prior crop years	4,705,363,450	4,694,983,915	10,379,535	10,626,032
1989-90 crop year	144,260,874	141,956,590	2,304,284	2,516,948
1990-91 crop year	1,461,790,445	1,453,627,144	8,163,301	8,754,814
1991-92 crop year	1,163,737,749	1,154,360,881	9,376,868	10,466,755
1992-93 crop year	1,081,150,782	1,069,192,498	11,958,284	14,200,245
1993-94 crop year	819,208,984	800,000,176	19,208,808	25,861,434
1994-95 crop year	524,197,302	521,172,972	3,024,330	7,042,617
1995-96 crop year	542,198,368	538,740,829	3,457,539	67,176,060
1996-97 crop year	874,948,103	707,692,901	167,255,202	
	11,316,856,057	11,081,727,906	235,128,151	146,644,905
Interest costs payable by Government of Canada				
Interest costs payable by Government of Canada			383,367,301	374,263,690
Deduct amounts received from Government of Canada			(382,920,379)	(373,549,555)
			446,922	714,135
Interest charges payable by producers				
Regular interest payable by producers			30,390,986	29,376,803
Deduct amounts received from producers			(28,602,831)	(25,587,645)
			1,788,155	3,789,158
Default interest				
Interest received from producers on default payments			(33,761,679)	(32,161,743)
Deduct amounts forwarded to the Government of Canada			31,552,114	26,860,281
			(2,209,565)	(5,301,462)
Deduct balance of funds received from				
Government of Canada to cover advance payments in default			(71,878,188)	(90,984,373)
Line elevator companies to cover advance payments in default			(1,466,902)	(1,903,388)
Line elevator companies to cover current advances			(233,338)	(307,192)
			(73,578,428)	(93,194,953)
			161,575,235	52,651,783

Since the 1990-91 crop year, the producer pays interest on the part of the cash advance that is in excess of $50,000, and the Government of Canada pays interest on advances up to $50,000 (except 1993-94 when the producer paid interest on the part of the cash advance that was in excess of $60,000 and was required to pay the first 2.25% interest on advances up to $60,000). During the 1989-90 crop year, the producer was required to pay all of the interest on the cash advance. Prior to this, the Government of Canada paid all of the interest.

STATEMENT OF ADMINISTRATIVE AND GENERAL EXPENSES AND ALLOCATIONS TO OPERATIONS

for the year ended July 31

EXHIBIT VIII

	1997	1996
	$	$
Administrative and general expenses		
Advisory committee	212,019	258,516
Annual report, Grain Matters and other CWB publications	731,974	544,783
Area representatives	375,485	299,377
Audit fees	163,000	153,000
Bonds and insurance	60,701	57,469
Car Allocation Policy Group—CWB share of operating expenses	35,000	
Canadian International Grains Institute—CWB share of operating expenses	1,623,164	1,400,333
Communications and information	195,818	262,746
Computing equipment—rentals and services	5,762,260	2,953,633
Depreciation on automobiles, buildings computer equipment and systems, furniture and equipment	2,559,696	1,852,188
District meetings	21,947	21,204
Human resources—salaries	21,386,370	21,000,991
Human resources—employment insurance, pension, group insurance, medical and other employee benefits	4,882,949	5,139,259
Human resources—recruitment	252,863	71,026
Human resources—training and development	203,665	320,134
Legal fees and court costs	376,808	21,800
Management consulting	482,812	534,912
Manitoba Health and Education Tax	472,799	484,452
Office and miscellaneous	1,195,881	927,563
Postage	934,771	1,042,426
Printing, stationery and supplies	539,379	567,978
Publications and subscriptions	325,800	274,182
Rental and lighting of offices, including maintenance of The Canadian Wheat Board building	2,059,766	2,075,693
Repair and rental of office equipment	309,214	237,602
Telecommunications	753,458	668,895
Travelling and transfer of staff	1,506,784	1,303,016
	47,424,383	42,473,178

	1997	1996
	$	$
Allocation to operations		
Marketing of producers' grain		
1996-97 pool accounts		
—Wheat	19,306,864	
—Durum	3,443,975	
—Barley	2,384,553	
—Designated barley	2,347,413	
1995-96 pool accounts		
—Wheat	12,347,138	15,037,940
—Durum	3,768,713	4,163,157
—Barley	1,090,647	1,328,331
—Designated barley	2,193,290	2,671,272
1994-95 pool accounts		
—Wheat		12,315,958
—Durum		3,422,165
—Barley		891,399
—Designated barley		1,926,933
Cost allocated to pool accounts based on relative tonnage	46,882,593	41,757,155
Distributing final payments to producers 1989-90 to 1995-96 pool accounts (1989-90 to 1994-95 pool accounts for the prior year)		
—Wheat	327,032	441,361
—Durum	91,620	124,417
—Barley	65,020	81,228
—Designated barley	58,118	69,017
Cost allocated to payment accounts based on activity	541,790	716,023
	47,424,383	42,473,178

STATEMENT OF SPECIAL ACCOUNT TRANSACTIONS
for the year ended July 31

EXHIBIT IX

	1997	1996
	$	$
Balance of special account at beginning of year	3,235,545	2,484,872
Add transfer to special account from payment accounts authorized by Order-in-Council		1,360,539
	3,235,545	3,845,411
Deduct expenditures authorized by Order-in-Council noted below	(562,076)	(609,799)
Deduct payments to producers against old payment accounts	(11,040)	(67)
Balance of special account at end of year	2,662,429	3,235,545

Details of Expenditures:

Authorized by Order-in-Council	Description of purpose	Unexpended as at July 31, 1996	Authorized crop year 1996-97	Unexpended as at July 31, 1997	Expended crop year 1996-97
		$	$	$	$
P.C. 1994-1305 P.C. 1995-2202	Market development	335,783		179,229	156,554
P.C. 1995-2203 P.C. 1996-1358	Canadian International Grains Institute —capital expenditures	115,000		59,478	55,522
P.C. 1990-1538	Scholarship program	44,024	305,976		350,000
		494,807	305,976	238,707	562,076

As at July 31, 1997 there were unexpended authorizations totalling $238,707 leaving an unallocated balance of $2,423,722.

NOTES TO FINANCIAL STATEMENTS
(the following are an integral part of the financial statements)

1. Act of incorporation and mandate

The Canadian Wheat Board (CWB) was established by the *Canadian Wheat Board Act*, a statute of the Parliament of Canada. The CWB was created as an agent of Her Majesty in right of Canada for the purpose of marketing in an orderly manner, in inter provincial and export trade, grain grown in Western Canada. The CWB is accountable for its affairs to Parliament through the Minister responsible for the Canadian Wheat Board.

2. Summary of significant accounting policies

(a) Results of operations

The annual accounts at July 31 include the final operating results for all pool accounts for the crop year ended July 31, where marketing operations have been completed before the issuance of the annual report for that year. In determining the financial results for such pools, the accounts of the CWB at July 31 include:

(i) Stocks of grain on hand at July 31 at the values which were ultimately received as sale proceeds.

(ii) Provision for all expenses incurred or to be incurred in the process of marketing these stocks of grain including a charge for the portion of administrative and general expenses incurred subsequent to July 31 but relating to this marketing activity. Expenses related to marketing activities carried out subsequent to July 31 are included in accounts payable and accrued expenses. The expenses included are carrying charges, storage, interest, rail freight and other transportation charges, and administrative costs, together with all other sundry expenses incurred during the period.

(iii) Balances not yet distributed to producers at July 31 where marketing operations have been completed for the 1996-97 pool accounts are included in Liability to Producers.

(b) Allowances for losses on accounts receivable from credit sales

The Government of Canada guarantees the principal and interest of both the accounts receivable resulting from sales made under the Credit Grain Sales Program and the CWB's borrowings incurred to finance these accounts receivable. Because of these guarantees, the CWB is not at risk should any of the unpaid amounts prove to be uncollectible. For credit sales made outside of the Credit Grain Sales Program, the CWB has entered into arrangements with a Canadian financial institution to guarantee that the CWB has no credit risk. Therefore, no provision is made by the CWB with respect to the possibility of debtors defaulting on their obligations.

(c) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Computer equipment and systems	1 to 10 years (to 1/20 residual value)
Automobiles	2 years (to 1/3 residual value)
Building and office alterations	3 years
Office furniture and equipment	10 years
Hopper cars	30 years
Building	40 years

(d) Translation of foreign currencies

Sales contracts denominated in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the rates provided therein. Other income and expenses are translated at the daily exchange rates in effect during the year.

Assets and liabilities denominated in United States dollars are translated at the exchange rate in effect at the balance sheet date. The CWB hedges its United States dollar assets and liabilities on a total portfolio basis. It is the CWB's policy to manage these assets and liabilities in order to minimize net exposure to foreign currency fluctuations. Exchange adjustments arising from conversion of amounts due from foreign customers and borrowings are included in interest earnings.

Medium term notes issued by the CWB in currencies other than the Canadian or United States dollar are hedged by currency swap agreements and are translated into Canadian or United States dollars at the rates provided therein.

(e) Hedging of anticipated future transactions

The CWB has entered into wheat future and option contracts to price a portion of anticipated sales. The CWB has also entered into foreign exchange forward and option contracts in order to manage the foreign exchange risk of a portion of anticipated sales. The gains and losses on these contracts form part of the net sales price and are recognized in income as an adjustment to sales revenue in the same period as the sales being hedged.

(f) Interest and bank charges

Interest expense and bank charges incurred by the CWB in financing its activities and interest revenue earned are calculated on a full accrual basis. Interest expense and revenue are netted which is consistent with the requirement under the *Canadian Wheat Board Act* that such amounts be treated as charges or recoveries of operating costs. Net interest earnings includes interest earnings and expenses related to accounts receivable, bank charges, transaction and program fees on borrowing facilities, and interest earned on each pool account during the pool period and until final distribution to producers.

(g) Administrative and general expenses

Administrative and general expenses, except for that portion of such expenses attributable to distributing final payments to producers, are allocated to the various pool accounts to which the services relate on the basis of the relative tonnage. Expenses attributable to final payments are allocated on the basis of the number of producers receiving payments from the various pool accounts.

(h) Post-employment benefits

Benefits provided to employees upon retirement or termination are recognized in the accounts as they are earned by the employees. The unaccrued balance as at July 31, 1993 was $7,980,330, which is being amortized on a straight line basis over ten years commencing with the 1993-94 crop year. The unaccrued balance at July 31, 1997 is $4,788,198 (1996—$5,586,231).

3. Accounts receivable from credit sales

The status of accounts receivable from credit sales is as follows:

	1997	1996
	$	$
Due from foreign customers		
Current	226,758,452	410,285,821
Overdue	578,518,611	542,894,695
Subject to a Paris Club rescheduling	283,364,048	137,842,737
Rescheduled	5,276,890,424	5,430,839,079
	6,365,531,535	6,521,862,332
Due from Government of Canada	52,759,975	131,415,467
	6,418,291,510	6,653,277,799

Amounts that are current include balances receivable of $22,100,819 (1996—$80,376,397) arising from credit sales made outside of the Government of Canada guaranteed Credit Grain Sales Program.

The accounts receivable from credit sales mature as follows:

	1997	1996
	$	$
Within		
1 year	373,523,321	322,340,339
2 years	63,088,244	237,822,995
3 years	95,019,027	338,310,972
4 years	123,318,138	342,260,933
5 years	206,659,378	296,221,345
More than 5 years	4,978,164,791	4,573,426,520
Overdue	578,518,611	542,894,695
	6,418,291,510	6,653,277,799

Amounts due from foreign customers

These accounts receivable arise from sales of grain to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iran, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms call for payment in full within 36 months or less from time of shipment, except for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Peru, Poland, Russia and Zambia where the CWB, together with the Government of Canada, has agreed to reschedule certain receivables beyond their original maturity dates. All the reschedulings are arranged by the Paris Club, a forum through which the governments of debtor and creditor countries establish mutually agreed terms for the rescheduling and/or reduction of debts owed to the creditor governments and their agencies. Terms of such reschedulings vary, calling for payment of interest and the rescheduled debt for periods ranging from 5 to 25 years.

Of the $6,365,531,535 (1996—$6,521,862,332) principal and accrued interest due from foreign customers, $4,490,063,911 (1996—$4,597,347,569) represents the Canadian equivalent of $3,258,391,808 (1996—$3,343,768,688) repayable in United States funds.

Due from the Government of Canada

In addition to debt relief by means of extending the payment terms, the Government of Canada has in certain cases agreed to provide various levels of debt reduction, through the Paris Club, to customer countries who have rescheduled amounts owing to the CWB. Under the debt reduction arrangements, payment of amounts owing to the CWB is divided on an agreed basis between the debtor country and the Government of Canada. The amount of $52,759,975 reflects the amount due from the Government of Canada as at July 31, 1997 under these debt reduction agreements.

Of the $52,759,975 (1996—$131,415,467) accrued interest due from the Government of Canada, $28,922,874 (1996—$39,619,072) represents the Canadian equivalent of $20,989,023 (1996—$28,815,966) repayable in United States funds.

4. Stocks of grain

Stocks of grain at July 31 are reported at the value ultimately received as sales proceeds as follows:

	1997	1998
	$	$
Wheat	1,166,874,727	840,641,828
Durum	329,674,513	452,585,664
Barley	107,241,670	70,071,525
Designated barley	78,346,114	69,311,513
	1,682,137,024	1,432,610,530

5. Deferred and prepaid expenses

Deferred and prepaid expenses of $38,127,819 (1996—$51,440,276) includes prepaid costs of moving inventory to eastern export positions of $18,063,545 (1996—$20,983,031), deposits on commodity margin accounts of $5,431,555 (1996—$1,871,049), foreign exchange options premiums applicable to subsequent pool accounts of $5,395,248 (1996—$0), purchase options on leased hopper cars of $5,137,335 (1996—$5,137,335), net results of commodity hedging activities applicable to subsequent pool accounts of $3,320,546 (1996—$21,258,841), and other deferred and prepaid expenses of $779,590 (1996—$2,190,020).

6. Fixed assets

			1997	1996
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Hopper cars	86,752,287	50,606,894	36,145,393	39,057,399
Computer equipment and systems	20,080,067	7,295,320	12,784,747	1,476,203
Office furniture and equipment	4,774,559	2,798,416	1,976,143	1,890,337
Building	4,572,956	3,768,450	804,506	904,893
Building and office alterations	1,882,190	1,283,568	598,622	440,221
Automobiles	588,066	231,827	356,239	393,874
Leasehold improvements	73,659	14,323	59,336	
	118,723,784	65,998,798	52,724,986	44,162,927

Two thousand hopper cars were purchased by the CWB in 1979-80 having an original cost of $90,555,623. Of these 2,000 cars, 84 cars have been wrecked and dismantled leaving 1,916 still in the fleet. The CWB is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

7. Borrowings

Details of these borrowings are as follows:

	1997	1996
	$	$
Short term debt instruments and loans	5,760,845,131	5,923,783,101
Medium term debt instruments	479,909,012	535,514,848
	6,240,754,143	6,459,297,949

These borrowings fund the following:

	1997	1996
	$	$
Funds on deposit from ordinary operations	(177,537,367)	(193,979,850)
Borrowings to finance credit sales	6,418,291,510	6,653,277,799
	6,240,754,143	6,459,297,949

Of the total short term borrowings $3,944,082,032 (1996—$4,069,850,631) represents the Canadian equivalent of $2,862,178,543 (1996—$2,960,106,648) repayable in United States funds after giving effect to currency swaps. Of the medium term borrowings, $479,909,012 (1996—$535,514,848) represents the Canadian equivalent of $348,264,885 (1996—$389,493,671) repayable in United States funds after giving effect to cross-currency interest rate swaps.

The CWB's borrowings are undertaken with the approval of the Minister of Finance. Such borrowings constitute direct obligations of the CWB and as such constitute borrowings undertaken on behalf of Her Majesty in Right of Canada.

8. Accrued expenses and accounts payable

	1997	1996
	$	$
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	62,555,310	38,544,905
Deferred sales revenue	30,642,331	33,577,806
Accounts payable	12,574,974	35,834,294
	105,772,615	107,957,005

9. Liability to agents of the CWB

	1997	1996
	$	$
For grain purchased from producers	1,191,064,200	957,709,932
For deferred cash tickets	173,258,169	202,006,228
	1,364,322,369	1,159,716,160

Grain purchased from producers

Grain companies, acting in the capacity of agents of the CWB, accept deliveries from producers at country elevators and pay the producers on behalf of the CWB based on the CWB's initial price in effect. Settlement is not made by the CWB for these purchases until delivery to the CWB is completed by its agents at terminal or mill position.

Liability to agents for grain purchased from producers represents the amount payable by the CWB to its agents for 6 648 763 (1996—3 951 298) tonnes of grain on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the CWB is to be completed subsequent to the year end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the CWB, deposit with the CWB in trust an amount equal to the deferred cash tickets issued for CWB grain. These funds are returned to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

10. Liability to producers

	1997	1996
	$	$
Outstanding producer cheques at July 31		
Wheat	177,196,112	153,398,037
Durum	112,295,373	64,589,683
Barley	3,169,751	8,899,593
Designated barley	50,269,393	19,067,706
Oats		3,021
	342,930,629	245,958,040
Undistributed earnings to producers		
Wheat	231,167,373	157,448,989
Durum	99,267,427	97,308,668
Barley	14,016,521	10,821,578
Designated barley	15,945,564	33,696,550
	360,396,885	299,275,785
	703,327,514	545,233,825

11. Provision for final payment expenses

The amount of $8,108,840 (1996—$5,805,860) represents the balance of the CWB's reserve for final payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account by Order-in-Council.

12. Special account—net balance of undistributed payment accounts

In accordance with the provision of Section 39 of the *Canadian Wheat Board Act*, the Governor in Council may authorize the CWB to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council, upon the recommendations of the CWB, may deem to be for the benefit of producers.

13. Lease commitments

The CWB, as an agent of Her Majesty in Right of Canada, leases 2,000 covered hopper cars for the Government of Canada. All lease costs are recoverable from the government and are not a charge to the operations of the CWB. Total payments associated with leases in the year ended July 31, 1997, amounting to $18,889,422 (1996—$20,248,521) have been recovered by the CWB. Lease terms are for 20 and 25 years.

14. Off balance sheet financial instruments

The CWB enters into interest rate hedging transactions to manage its funding costs and to implement asset/liability management strategies. These transactions are designed to reduce the CWB's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange. These transactions include interest rate swap contracts, cross-currency interest rate swap contracts and currency swap contracts.

The CWB also transacts foreign exchange forwards, swaps, and options with financial institutions with the objective of hedging currency exposure arising primarily from grain sales. By hedging the CWB's currency exposure, risk arising from adverse currency movements is reduced.

As at July 31, the total notional amount of these off balance sheet financial instruments, all either maturing or rate re-setting within one year, is as follows:

	1997		1996	
	Notional amounts	Fair value	Notional amounts	Fair value
	$	$	$	$
Interest rate contracts				
Single-currency interest rate swaps	384,875,400	(760,671)	695,699,400	212,124
Cross-currency interest rate swaps	300,769,012	4,968,204	123,044,848	9,747,822
Currency swaps	710,413,893	(29,625,867)	939,752,294	20,415,627
	1,396,058,305	(25,418,334)	1,758,496,542	30,375,573
Foreign exchange contracts				
Foreign exchange forwards	969,526,082	(2,949,600)	886,026,683	(3,577,603)
Foreign exchange swaps	158,670,547	1,882		
Foreign exchange purchased options	1,059,682,000	10,396,500	27,498,000	97,000
Foreign exchange sold options	784,082,000	(1,674,550)	27,498,000	(128,000)
	2,971,960,629	5,774,232	941,022,683	(3,608,603)
	4,368,018,934	(19,644,102)	2,699,519,225	26,766,970

The fair value of interest rate contracts refers to the net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices where available. The fair value of foreign exchange contracts refers to the market value of forward contracts and the replacement value of options contracts. These estimates of fair value are extensively affected by the assumptions used and as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

The CWB manages its exposure to the risk of non-performance by the counter party by contracting only with financial institutions having a credit rating which complies with the Financial Risk Management Guidelines approved by the Board of Commissioners and submitted to the Department of Finance. The CWB's maximum credit risk exposure at July 31, 1997 for these classes of financial instruments is calculated as $21,366,996 (1996—$32,465,224). Credit exposure is calculated as the sum of all positive fair values for these classes of financial instruments as of July 31.

15. Sales

Net sales are calculated as follows:

(a) Wheat pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	16 824 059	3,917,408,522	12 998 103	3,375,684,928
Sales shipped subsequent to July 31	6 122 735	1,166,874,727	3 157 890	840,641,828
Weight losses in transit and in drying	34 764		716	
	22 981 558	5,084,283,249	16 156 709	4,216,326,756
Deduct				
Grain acquired from other than producers	67 090	12,744,146	78 901	17,486,232
Sales used to value prior pool account	3 157 890	840,641,828	1 725 355	386,737,816
Net sales of wheat	19 756 578	4,230,897,275	14 352 453	3,812,102,708

The disposition of wheat stocks in tonnes is segregated as follows:

Domestic sales	2 439 607	1 674 677
Export sales	18 209 498	11 323 426
Sales to subsequent pool account	2 297 689	3 157 890
Weight losses in transit and in drying	34 764	716
	22 981 558	16 156 709

(b) Durum pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	3 587 073	862,701,240	2 936 915	905,424,146
Sales shipped subsequent to July 31	1 285 549	329,674,513	1 836 819	452,585,664
Weight losses in transit and in drying	10 218		1 736	
	4 882 840	1,192,375,753	4 775 470	1,358,009,810
Deduct				
Grain acquired from other than producers	20 961	4,271,236	27 117	6,294,013
Sales used to value prior pool account	979 031	225,311,794	774 969	221,351,427
Net sales of Durum	3 882 848	962,792,723	3 973 384	1,130,364,370

The disposition of durum stocks in tonnes is segregated as follows:

Domestic sales	194 774	222 750
Export sales	4 096 920	3 571 953
Sales to subsequent pool account	580 928	979 031
Weight losses in transit and in drying	10 218	1 736
	4 882 840	4 775 470

(c) Barley pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	2 092 668	351,797,407	931 288	202,268,278
Sales shipped subsequent to July 31	739 671	107,241,670	379 501	70,071,525
Weight losses in transit and in drying	8 989		51	
	2 841 328	459,039,077	1 310 840	272,339,803
Deduct				
Grain acquired from other than producers	21 730	3,001,277	15 250	2,615,715
Sales used to value prior pool account	379 501	70,071,525	27 809	3,104,099
Net sales of barley	2 440 097	385,966,275	1 267 781	266,619,989

The disposition of barley stocks in tonnes is segregated as follows:

Domestic sales	4 315		16 825
Export sales	2 279 935		914 463
Sales to subsequent pool account	548 089		379 501
Weight losses in transit and in drying	8 989		51
	2 841 328		1 310 840

(d) Designated barley pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	2 005 173	457,492,403	2 264 045	550,992,796
Sales shipped subsequent to July 31	417 487	78,346,114	286 555	69,311,513
	2 422 660	535,838,517	2 550 600	620,304,309
Deduct				
Grain acquired from other than producers	2 294	360,701	1 095	275,012
Sales used to value prior pool account	18 275	4,604,600		
Net sales of designated barley	2 402 091	530,873,216	2 549 505	620,029,297

The disposition of designated barley stocks in tonnes is segregated as follows:

Domestic sales	372 017	337 587
Export sales	1 988 464	2 194 738
Sales to subsequent pool account	62 179	18 275
	2 422 660	2 550 600

16. Restatement of prior year's balances

Certain of the prior year's balances have been restated to conform with the current year's presentation.

CAPE BRETON DEVELOPMENT CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF NATURAL RESOURCES

I have audited the balance sheet of Cape Breton Development Corporation as at March 31, 1998 and the statements of operations, deficit and equity, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, except for the change in accounting policy for workers' compensation costs as explained in Note 4 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Cape Breton Development Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 20, 1998
(except as to Note 4 which
is as of June 12, 1998)

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997
Current assets		
Cash	4,005	9,611
Accounts receivable, net (Note 5)	25,300	20,346
Inventories		
Coal	2,278	11,231
Operating materials and supplies	7,998	8,364
	39,581	49,552
Capital assets (Note 6)	121,740	140,146
Deferred pension costs (Note 7)	58,054	62,862
	219,375	252,560

LIABILITIES	1998	1997
Current liabilities		
Accounts payable and accruals	24,785	32,342
Corporate taxes payable (Note 12)	4,236	3,846
Current portion of long term provisions (Notes 4, 8 and 9)	25,371	11,895
	54,392	48,083
Provision for early retirement and restructuring (Note 8)	104,899	105,548
Provision for environment (Note 9)	20,591	20,559
Provision for Workers' Compensation (Note 4)	126,239	
	306,121	174,190
DEFICIT		
Repayable appropriations from future profits (Note 10)	65,605	43,500
Equity (Deficit) of Canada	(152,351)	34,870
	(86,746)	78,370
	219,375	252,560

Going concern (Note 2).
Commitments and contingencies (Note 11).

Approved on behalf of the Board:

JOSEPH SHANNON
Director

JOSEPH M. MacMULLEN
Director

STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Revenue	167,917	167,299
Expenses		
Cost of product sold	138,536	126,225
External freight	4,846	4,156
General and administrative	7,143	7,525
Amortization	26,223	25,925
	176,748	163,831
Profit (loss) from current operations	(8,831)	3,468
Deduct		
Workers' Compensation and pensions (Notes 4 and 7)	15,486	23,256
Early retirement and restructuring (Note 8)	17,899	10,043
Write-down of capital assets (Note 6)	4,876	
	38,261	33,299
Loss before taxes	(47,092)	(29,831)
Corporate taxes (Note 12)	390	310
Loss before change in accounting policy	(47,482)	(30,141)
Change in accounting policy for Workers' Compensation (Note 4)	139,739	
Loss for the year	(187,221)	(30,141)

STATEMENT OF DEFICIT AND EQUITY
YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Balance of Equity, beginning of year		
Repayable appropriation from future profits	43,500	
Equity of Canada	34,870	65,011
	78,370	65,011
Add (deduct)		
Repayable appropriation from future profits received during the year	22,105	43,500
Equity of Canada—loss for the year	(187,221)	(30,141)
	(165,116)	13,359
Balance of Equity (Deficit), end of year		
Repayable appropriations from future profits	65,605	43,500
Equity (Deficit) of Canada	(152,351)	34,870
	(86,746)	78,370

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Net inflow (outflow) of cash related to the following activities		
Operating		
Loss for the year	(187,221)	(30,141)
Items not affecting cash		
Amortization of capital assets	26,223	25,925
Gain on disposal of assets		(806)
Write-down of capital assets	4,876	
Early retirement and restructuring	17,899	10,043
Pension expense	4,931	10,871
Change in accounting policy for Workers' Compensation	139,739	
Changes in non-cash operating working capital items	(2,802)	8,177
	3,645	24,069
Payments for early retirement and restructuring	(16,979)	(15,565)
Payments for environmental projects	(1,561)	(1,637)
Pension contributions	(123)	(27,826)
	(15,018)	(20,959)
Financing		
Decrease in working capital advances		(15,000)
Receipt of repayable appropriation from future profits	22,105	43,500
	22,105	28,500
Investing		
Purchase of capital assets	(12,693)	(8,147)
Proceeds from sale of capital assets		1,244
	(12,693)	(6,903)
Net inflow (outflow) of cash	(5,606)	638
Cash, beginning of the year	9,611	8,973
Cash, end of the year	4,005	9,611

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

1. Authority and objectives

The Corporation was established in 1967 for the purpose of reorganizing and rehabilitating the coal industry on Cape Breton Island, pursuant to the *Cape Breton Development Corporation Act*. Its corporate mission is "to become a profitable coal mining company".

The Corporation, an agent of Her Majesty, is listed as a Schedule III, Part I, corporation for purposes of the *Financial Administration Act*. The Corporation is carrying out restructuring activities as approved in the 1996/97 to 2000/01 Corporate Plan and revised in the 1997/98 to 2001/02 Corporate Plan approved by the Governor in Council. The Government of Canada is providing funding support for these activities by means of repayable appropriations from future profits (see also Note 10). As a result, the Corporation is economically dependent on the Government of Canada for funding it receives through this arrangement.

Repayable advances from the Government of Canada are also provided for working capital purposes to a limit of $50,000, as provided for in the *Cape Breton Development Corporation Act*.

The Corporation is subject to provisions of the *Income Tax Act*.

2. Going concern

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a "going concern", which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Corporation's objective is to be self-sufficient. Until March 31, 1995, it had received annual financial support from the Government of Canada in the form of non-repayable appropriations. In order to fund corporate restructuring, the Government of Canada provided the Corporation with repayable appropriations during 1997 and 1998, totalling $65,605. The restructuring was approved by the Governor in Council in the 1996/97 to 2000/01 Corporate Plan with revisions approved in the 1997/98 to 2001/02 Corporate Plan. Additional repayable appropriations of $3,358 are projected to be received in 1998/99. The repayable appropriations are to be repaid from projected future profits and cash surpluses, according to set terms, beginning in 1999/00. The Corporation is currently operating according to a one year Capital and Operating budget for 1998/99. The Corporation is conducting seismic and geological studies to determine the future operations and viability of one of its main assets, the Phalen Colliery. Therefore, finalization of decisions beyond one year has been postponed pending completion of these studies. A five-year Corporate Plan for 1998/99 to 2002/03 will be submitted after these studies are completed.

The Corporation has experienced significant geological and mining problems, mainly with the Phalen Colliery, including roof collapses, water inflows, sandstone conditions, and rock-gas outburst conditions, which result in uncertainty regarding the economic recovery of the coal reserves. During the year, a roof fall caused an extended shutdown of operations at Phalen Colliery resulting in a significant shortfall from planned production and development targets. The ability of the Corporation to meet the forecasts in its approved Corporate Plan is largely dependent on achieving these key performance targets.

The ability of the Corporation to continue as a going concern is dependent on its ability to become profitable in the period outlined in its approved Corporate Plan, on the viability of the Phalen Colliery and on the Government of Canada's continuing financial support to meet certain obligations and commitments as they come due. These financial statements do not include any adjustments to the amounts recorded as assets, liabilities and equity which would be required if the Corporation was not able to continue as a going concern.

3. Accounting policies

(a) Repayable appropriation from future profits

Parliamentary appropriations from the Government of Canada that are repayable from future profits are recorded as Equity.

(b) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: Workers' Compensation costs (see also Note 4), the net book value of capital assets (see also Note 6), provision for early retirements and restructuring (see also Note 8), and provision for environment (see also Note 9).

(c) Fair values

The fair values of financial instruments are determined as follows:

Current portion of provision for early retirement and restructuring—using cash flows of estimated future payments without discounting (see also Note 8).

Provision for early retirement and restructuring—using discounted cash flows of estimated future payments for early retirements, based on current interest rates. The component for standby maintenance is based on estimated future net cash flows, without discounting (see also Note 8).

Provision for environment—using estimated future payments, without discounting (see also Note 9).

Repayable appropriation from future profits—based on principal amount received, without discounting (see also Note 10).

Workers' compensation benefits—the liability for future workers' compensation costs related to past incidents is recorded in the financial statements based on an actuarial extrapolation of the December 31, 1995 actuarial valuation (see also Note 4).

(d) Inventories

Coal—is valued at the lower of full cost and net realizable value, based on net expected future contract price.

Operating materials and supplies—are valued at the lower of cost, determined on a weighted-average basis, and net realizable value.

(e) Capital assets

Capital assets are valued at the lower of cost less accumulated amortization and the estimated net recoverable amount. The Corporation has provided amortization on its capital assets based on their estimated remaining useful lives, using the straight-line method of calculation, as follows:

Prince Colliery	2-20 years
Phalen Colliery	2-8 years
Coal Preparation Plant	15 years
Devco Railway	4-20 years
Other assets	4-20 years

All costs related to the exploration and development of the Donkin-Morien Development project have been expensed in prior years because the future economic benefits of the project were uncertain.

(f) Foreign currency translation

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the rate of exchange prevailing on the transaction date. The resulting foreign currency gains and losses are included in the results of operations.

(g) Pension costs

Current service pension costs are actuarially determined and are included in the cost of product sold. All other pension costs are included in Workers' Compensation and pensions. These costs include the initial unfunded liability and adjustments arising from experience gains and losses amortized over the estimated average remaining service life of employees.

(h) Development costs

Development costs incurred prior to commercial production are capitalized and subsequently charged to operations on the straight line basis of amortization over the estimated useful life of the related asset. Any proceeds from the sale of coal produced during the development of mining properties prior to commercial production are used to offset the capitalized development costs. After a mine property has been brought into commercial production, costs of development on that property are expensed as incurred except for those of an exploratory nature that are deferred and amortized over the life of the asset.

(i) Provision for environment

Future decommissioning and site restoration

Future removal and decommissioning costs and future site restoration and reclamation costs of operating sites are recognized when they can be reasonably estimated. Costs are capitalized only if future economic benefits are anticipated.

Ongoing environmental costs

Costs for ongoing environmental activities related to mine drainage and water treatment, in addition to the general protection of the environment are recognized when they can be reasonably estimated. Costs are capitalized only if future economic benefits are anticipated.

(j) Provision for early retirement and restructuring

The Corporation recognizes the net present value of liabilities for early retirement incentives, severance, education, and relocation allowances related to workforce reductions when the decision has been approved by the Government of Canada and an estimate of the anticipated future costs can be reasonably calculated. In addition, the Corporation recognizes estimated future costs associated with standby maintenance of non-operating assets when no future economic benefit is expected.

Management recognizes changes in the net present value of this liability from the original estimate, based on the results of actual experience.

4. Change in accounting policy

Effective March 31, 1998 the Corporation changed its accounting policy regarding the recognition of the expense and liability for the costs of benefits specified and administered by the Workers' Compensation Board of Nova Scotia for work-related injuries of current and former employees. Prior to this date, the Corporation only recognized an expense for the amount of payments made in the year to the Workers' Compensation Board of Nova Scotia. No liability had been recorded in the financial statements to recognize the cost of future payments in respect of approved awards and incidents incurred.

This year, the Corporation recognized the full amount of its actuarially determined liability as at March 31, 1998 based on an extrapolation of the December 31, 1995 actuarial valuation. This represents the present value of the liability based on prior years' claims, payments and actuarial assumptions. The actuarially determined liability consists of: long term disability permanent awards in respect of approved awards and incidents incurred but not yet administered as claims; survivor benefits, comprised mainly of pension payments for past claims; and other costs consisting mainly of temporary compensation, rehabilitation and medical aid in respect of past claims. These amounts are presented on a net present value basis, excluding future administration costs.

The actuary used assumptions, provided by management, in the calculation of the liability including: inflation rates, interest rates, mortality rates, and aggregate claim projections for incidents which have occurred. The actuarial liability could be materially different if assumptions on which the valuation is based vary significantly in future years.

In future years the Corporation will recognize an annual expense equivalent to the change in the present value of the actuarially determined liability. The recorded liability will also change each year as the actuarial estimate of the future costs is updated based on actual experience and changes in actuarial assumptions.

The effect of this change in accounting policy has been recorded in the current year as no reliable actuarial estimate is available for prior years. As a result of the Corporation's change in accounting policy, the Statement of Operations includes an additional expense of $139,739 for Workers' Compensation and the Balance Sheet includes an accrued liability for the same amount with $13,500 included in the current portion of long term provisions and $126,239 as a non-current provision. If the accounting policy had not changed, the expense for Workers' Compensation in 1998 would have been limited to $16,282 which represents payments made in the year to the Workers' Compensation Board of Nova Scotia. This amount is recorded on the Statement of Operations as part of cost of product sold and Workers' Compensation and pensions.

5. Accounts receivable, net

Accounts receivable, net are comprised of the following:

	1998	1997
	$	$
Nova Scotia Power Inc. (NSPI), net	24,725	19,093
Miscellaneous receivables, net	575	1,253
	25,300	20,346

The Corporation sells substantially all of its coal production to NSPI using normal commercial terms under the provision of a long-term agreement (see also Note 13).

6. Capital assets

	1998			1997		
	Adjusted cost base	Accumulated amortization	Net book value	Adjusted cost base	Accumulated amortization	Net book value
	$	$	$	$	$	$
Prince Colliery	158,480	138,985	19,495	155,413	132,546	22,867
Phalen Colliery	286,903	206,974	79,929	278,221	185,094	93,127
Donkin-Morien Development Project	80,679	80,679		80,679	80,679	
Coal preparation plant	111,291	111,291		110,972	110,972	
Devco Railway	97,554	79,526	18,028	97,099	78,210	18,889
Other assets	67,122	62,834	4,288	66,952	61,689	5,263
	802,029	680,289	121,740	789,336	649,190	140,146

The Corporation signed a letter of intent in April, 1997 to enter into an agreement for the purposes of selling the land and transferring the coal leases related to the Donkin-Morien Development Project. Such agreement would require further approval.

Included on the Statement of Operations is a write down and loss on surplus capital assets of $4,876 (1997—nil).

The valuation of capital assets is dependent upon the Corporation overcoming the problems identified in Note 2.

7. Pensions

The Corporation maintains defined benefit pension plans on behalf of employees of the Corporation. There are two major plans, consisting of a contributory and non-contributory plan. Benefits generally are based on employees' length of service and rate of pay. The present value of pension plan benefits and current pension expense are independently determined by the Corporation's actuary based on assumptions provided by management.

The Corporation's pension costs and obligations for the non-contributory pension plan as at March 31 consist of:

	1998	1997
	$	$
Pension fund assets (market value)	295,221	255,064
Pension obligations (actuarial value)	270,693	254,648
Surplus	24,528	416
Pension contributions	123	27,000
Pension expense	6,110	10,045

The difference between pension contributions and pension expense is recorded as an adjustment to deferred pension costs.

The Corporation's pension costs and obligations for the contributory plan as at March 31 consist of:

	1998	1997
	$	$
Pension fund assets (market value)	66,559	56,051
Pension obligations (actuarial value)	45,519	42,609
Surplus	21,040	13,442
Pension expense	(1,179)	826

The difference between pension contributions and pension expense is recorded as an adjustment to deferred pension costs.

The total pension expense for the year is $4,931 (1997—$10,871). The current service portion of $3,020 (1997—$1,429) is included in the cost of product sold.

The valuation of both pension plans is based on management's assumption that the human resources strategy related to restructuring approved in 1996 will not significantly affect the average age and retirement profile of the workforce. Management believes there will be no material effect on plan participation levels from workforce reductions.

8. Early retirement and restructuring

This provision consists of estimates of the cost of early retirement and restructuring initiatives when approval of such decisions is obtained. Changes to these estimates based on actual experience are recognized in the results of operations. As part of the corporate restructuring initiatives begun in 1996/97, the Corporation is committed to reducing its workforce by a total of 658 employees by March 31, 2001. At March 31, 1998 the Corporation has reduced its workforce by a total of 363 under these initiatives.

Management made significant assumptions in preparing estimates of this provision, including: interest rates for discount factors and price indexation for the non-current portion of the liability; planned date of employee reductions; Canada Pension disability award rates; and the number of reductions. The estimates of liabilities, based on the above, could be significantly different if the key assumptions used by management for major determinants of the estimate vary from those planned. Standby maintenance included in this provision is based upon management's intention for the use of capital assets as outlined in its approved 1997/98 to 2001/02 Corporate Plan. The estimate of this liability could be significantly different if the Corporation varies its intended use of capital assets and its decision to keep certain non-operating assets available for use.

Management recognizes changes in this liability from the original estimate based on updated assumptions and actual experience. The statement of operations includes a charge of $17,899 (1997—$10,043) for interest charges and changes in management's estimate. Management's estimate for the liabilities associated with early retirement and restructuring at March 31, including current and non-current amounts is:

	1998	1997
	$	$
Human resource strategy (1996)	65,381	55,555
Lingan colliery closure	25,738	33,381
Other early retirement incentives	15,393	15,248
Standby maintenance	9,428	10,836
	115,940	115,020
Less: current portion	11,041	9,472
Non-current portion	104,899	105,548

9. Provision for environment

The Corporation's provision for environment includes anticipated future costs related to: decommissioning and site restoration and reclamation; and other environmental activities related to mine drainage water treatment and general environmental protection. These estimates are based on meeting the requirements of applicable environmental laws and regulations and for the general protection of the environment in accordance with the Corporation's environmental policy. The estimate of the liability for these costs will be revised as the Corporation develops and implements closure and post closure plans in future years. Those plans will be developed in relation to the Corporation's environmental policy and applicable legislation at that time. The estimate of liabilities, based on the above, could be significantly different if future plans change as a result of revisions in management's assumptions or legislation.

Management's estimate of the liabilities associated with the provision for environmental projects at March 31, including current and non-current amounts is:

	1998	1997
	$	$
Mine drainage and water treatment	3,000	5,080
Removal, decommissioning and future site restoration and reclamation	8,753	9,402
General environmental protection	9,668	8,500
	21,421	22,982
Less: current portion	830	2,423
Non-current portion	20,591	20,559

10. Repayable appropriations from future profits

Since April, 1996, the Government of Canada has provided the Corporation with repayable appropriations totalling $65,605 (1998—$22,105 and 1997—$43,500) approved by the Parliament of Canada. Repayment conditions for appropriations received to March 31, 1997, in the amount of $43,500, have been negotiated with the Government of Canada. Minimum annual payments, beginning in the year 1999-2000, have been established as the greater of the annual amount of $6,343 or fifty percent of the Corporation's cash flow, except in the first year where the annual amount is limited to the interest amount of $3,271. Repayment terms for the funding received in the current year have not yet been negotiated with the Government of Canada.

11. Commitments and contingencies

(a) The Corporation has an operating lease for office space in the General Mining Building where it maintains its administrative offices. The lease is for a twenty year period ending in 2004. The annual lease payments fluctuate with changes in the lessor's mortgage interest rates. Current minimum annual lease payments are $1,106, at an interest rate of 5.85% (1997—$1,203 at 8%).

(b) In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. It is the opinion of management that the settlement of these actions will not result in any material liabilities beyond any amounts already recorded. The Corporation intends to oppose these matters in their entirety.

(c) The Corporation self insures against the potential loss of underground assets and for a portion of its liability insurance.

(d) The Corporation believes its operations are in compliance with all applicable environmental laws and regulations, in all material respects. The Corporation recognizes a provision based on management's estimate of these costs where such costs can be reasonably estimated. Such estimates are subject to adjustment based on changes in laws and regulations and as new information becomes available.

12. Corporate taxes

(a) The Corporation has had its income tax returns for the years 1983-1996 assessed by Revenue Canada Taxation. Revenue Canada Taxation has taken the position that Parliamentary appropriations to the Corporation in respect of operating losses are taxable as income from a business or property and that appropriations in respect of capital acquisitions reduce the capital cost of the Corporation's property.

Management opposes this view and has exercised the Corporation's right to formally challenge Revenue Canada Taxation's interpretation. Currently, management is holding discussions with Revenue Canada to resolve this issue.

No amounts have been recognized in the financial statements for any costs that could be associated with Revenue Canada Taxation successfully applying its interpretation. However, management is of the opinion that, even if Revenue Canada Taxation is successful in applying its interpretation, there is no significant income tax liability as at March 31, 1998 because of existing loss carry-forwards and income tax credits.

The Corporation has not recognized loss carry-forwards for income tax purposes in the financial statements because, at this time, these losses have no realizable value to the Corporation.

(b) The Corporation has recognized a provision for Large Corporations Tax based on the reported value of its net assets. However, the ultimate disposition of this liability is subject to the resolution of the issues under discussion with Revenue Canada Taxation as referred to above in Note 12 (a).

13. Long term agreement

The Corporation has an agreement with Nova Scotia Power Inc. (NSPI) to supply coal, as specified in that agreement, until 2010. The parties renegotiate quantities, tolerance on qualities and prices every five years. The current terms related to those items expire on December 31, 1999.

The parties' performance of this agreement in accordance with its terms is necessary to the future operations of the Cape Breton Development Corporation and the fulfillment of its 1997/98 to 2001/02 Corporate Plan.

14. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. In addition to these transactions, the Government of Canada has advanced appropriations repayable from future profits to the Corporation (see also Note 10) and provides working capital advances, at current interest rates, repayable within one year, based on cash flow requirements.

The Chairman of the Board of Directors of the Corporation has ownership interests and/or serves on the Board of Directors of companies which conduct business with the Corporation. The transactions between these parties relate mainly to the transportation of coal. These transactions are within the normal course of business and are subject to necessary approval and disclosures which exclude the participation of the Chairman of the Board of Directors of the Corporation.

15. Comparative figures

Certain of the comparative figures in these financial statements have been restated to conform with the current presentation.

DEFENCE CONSTRUCTION (1951) LIMITED

MANAGEMENT REPORT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an annual report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. Other financial and operating information appearing in the annual report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. Management also ensures that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.

Ross Nicholls
President and Chief Executive Officer

Trevor Heavens
Vice-President, Finance and Administration
and Secretary-Treasurer

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 1998 and the statements of operations and surplus (deficit) and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in accounting for funding of employee benefits as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 20, 1998

BALANCE SHEET AS AT MARCH 31, 1998

ASSETS	1998	1997
	$	$
Current		
Cash	2,113,709	1,164,377
Segregated cash (Note 4)	1,208,261	
	3,321,970	1,164,377
Accounts receivable	281,059	376,161
Due from Department of National Defence (Note 7)	2,150,210	2,006,631
Prepaids and advances	68,272	33,228
	5,821,511	3,580,397
Capital assets (Note 5)	1,152,453	1,783,080
	6,973,964	5,363,477

LIABILITIES	1998	1997
	$	$
Current		
Accounts payable and accrued liabilities	2,648,023	1,279,730
Current portion—provision for employee benefits (Note 6)	438,241	456,372
Deferred revenue	77,175	
	3,163,439	1,736,102
Provision for employee benefits (Note 6)	1,789,576	1,860,441
	4,953,015	3,596,543
CAPITAL STOCK AND SURPLUS		
Capital stock		
Authorized—1,000 common shares of no par value		
Issued—32 common shares	32	32
Surplus	2,020,917	1,766,902
	2,020,949	1,766,934
	6,973,964	5,363,477

Contingencies (Note 10).
See accompanying notes to financial statements.

Approved by the Board:

JOHN D. McLURE
Director

JOHN L. ADAMS
Director

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Revenue	16,499,243	
Cost recoveries		17,923,285
Expenses		
Salaries and employee benefits	11,259,811	12,590,049
Amortization of capital assets	784,548	816,162
Operating and administrative expenses	4,200,869	4,335,285
	16,245,228	17,741,496
Net Income	254,015	181,789

See accompanying notes to financial statements.

STATEMENT OF SURPLUS (DEFICIT)
FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Surplus (Deficit) beginning of year	1,766,902	(268,526)
Change in accounting policy (Note 3)		1,853,639
Surplus restated	1,766,902	1,585,113
Net income	254,015	181,789
Surplus end of year	2,020,917	1,766,902

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Operating activities		
Net Income	254,015	181,789
Items not requiring cash		
Long term provision for employee benefits	199,143	490,788
Amortization	784,548	816,162
Loss on disposal of capital assets		16,178
Net increase (decrease) in non-cash working capital balances related to operations	1,343,817	531,321
	2,581,523	2,036,238
Employee benefits paid	(270,009)	(120,881)
	2,311,514	1,915,357
Investing activities		
Acquisition of capital assets	(153,921)	(909,426)
Increase in cash during the year	2,157,593	1,005,931
Cash at beginning of the year	1,164,377	158,446
Cash at end of the year	3,321,970	1,164,377

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Authority and objective

Defence Construction (1951) Limited was incorporated under the *Canada Corporations Act* in 1951 and was continued under the *Canada Business Corporations Act*, pursuant to the authority of the *Defence Production Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Corporation is not subject to income taxes.

The objective of the Corporation is principally to contract for and manage the architectural, engineering, construction and environmental services to support the infrastructure management requirements of the Department of National Defence, pursuant to the Memorandum of Understanding with the Department.

In prior years, the Department of National Defence provided the Corporation with funding for its net cost of operations and for the purchase of capital assets. Effective April 1, 1997 all revenue is generated from fees charged for specific services provided.

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles. The financial statements reflect the administrative expenses incurred in providing services to the Department of National Defence, as described above.

Capital assets

Capital assets, comprised of equipment and computers which include hardware, software and development costs, are capitalized at cost and are amortized on a straight-line basis over five years.

Employee benefits

Employees are entitled to specific benefits on termination as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to an amount equal to the employees' contributions on account of current and certain past service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Revenue

Revenue is recognized in the year in which services are performed. Deferred revenue represents revenue received in advance of services performed.

Services provided without charge

The Department of National Defence provides office space free of charge for some employees of the Corporation.

3. Change in accounting policy

In prior years, the Corporation accounted for funding from the Department of National Defence as cost recoveries when payment was authorized by the Department. With the introduction of billing for services as the funding basis of the Corporation, an agreement was reached where the Department is responsible for the Corporation's employee benefits accrued prior to April 1, 1997.

As a result, the Corporation changed its accounting policy for funding these expenses such that the funding is recorded on the same basis as the related expenses are incurred. This change has been applied retroactively. The 1997 comparatives have been restated to reflect this change. 1997 net income and cost recoveries have been reduced by $536,826 and amounts due from the Department of National Defence and ending surplus have increased by $1,316,813.

4. Segregated cash

Cash has been segregated to reflect the funding of future capital assets ($300,000) and the funding of the provision for employee benefits ($908,261).

5. Capital assets

	1998			1997
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Equipment...	636,959	423,807	213,152	261,000
Computers...	4,250,025	3,310,724	939,301	1,522,080
	4,886,984	3,734,531	1,152,453	1,783,080

6. Provision for employee benefits

	1998	1997
	$	$
Termination benefits	1,777,601	1,860,441
Retiree benefits	11,975	
Vacation and overtime benefits	438,241	456,372
	2,227,817	2,316,813
Less: current portion	438,241	456,372
	1,789,576	1,860,441

7. Related party transactions

The principal related party to the Corporation is the Department of National Defence. As at March 31, 1998 the net balance due from the Department of National Defence was $2,150,210 (1997—$2,006,631). The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

8. Lease commitments

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation for its operations. The future minimum annual lease payments are:

Year ending March 31	$
1999	393,271
2000	241,828
2001	26,249
2002	13,124
	674,472

9. Financial instruments

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. The carrying amounts of each approximate fair value because of their short maturity. With the exception of amounts due from the Department of National Defence, there are no concentrations of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

10. Contingencies

Claims and letter of credit aggregating approximately $9,500,000 in respect of contractual obligations have been received by the Corporation. In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. Any settlements resulting from the resolution of these claims entered into prior to March 31, 1997 will be funded by the Department of National Defence, in the year of settlement. Claims subsequent to this date may involve a joint liability between the Department of National Defence and the Corporation.

11. Comparative figures

Certain 1997 comparative figures have been reclassified to conform with the current year's presentation.

ENTERPRISE CAPE BRETON CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Enterprise Cape Breton Corporation and all information in this annual report have been prepared by the Corporation's management. The financial statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Where there is more than one acceptable accounting alternative, management has chosen the one that is most appropriate to the circumstances of the Corporation.

Management is responsible for the integrity and objectivity of the information in the financial statements and annual report. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized and comply with relevant authorities, assets are safeguarded, and proper records are maintained to produce timely, reliable financial statements. In addition, the Audit Committee of the Board of Directors oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The Audit Committee of the Board of Directors has periodic meetings with management and the independent auditors to discuss the financial reporting process as well as accounting and reporting issues. The financial statements have been reviewed and approved by the Board of Directors upon the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in order to express his opinion thereon.

Keith G. Brown
Vice-President

Francis Mullins
Comptroller

AUDITOR'S REPORT

TO THE MINISTER FOR THE PURPOSES OF THE
ATLANTIC CANADA OPPORTUNITIES AGENCY ACT

I have audited the balance sheet of Enterprise Cape Breton Corporation as at March 31, 1998 and the statements of equity, operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Enterprise Cape Breton Corporation Act* and the by-laws of the Corporation.

Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 22, 1998

BALANCE SHEET AS AT MARCH 31, 1998

ASSETS	1998	1997
	$	$
Current		
Term deposits (Note 3)	2,886,378	1,795,534
Accounts receivable, net (Note 4)	3,398,450	1,457,155
Prepaid expenses	64,688	265,517
	6,349,516	3,518,206
Loans (Notes 5 & 6)	2,941,902	2,353,288
Investments (net of allowance of $400,000; 1997— $100,000) (Note 7)	750,000	950,000
Capital assets (Note 8)	164,886	157,620
	10,206,304	6,979,114

LIABILITIES	1998	1997
	$	$
Current		
Bank indebtedness	449,837	1,406,800
Accounts payable and accrued liabilities (Note 4)	4,951,886	1,059,222
Provision for employee termination benefits	2,549	47,800
	5,404,272	2,513,822
Long-term		
Provision for employee termination benefits	452,351	395,886
	5,856,623	2,909,708
EQUITY		
Equity of Canada	4,349,681	4,069,406
	10,206,304	6,979,114

Commitments (Note 10).
See accompanying notes.

Approved by the Board of Directors:

GAIL RUDDERHAM-CHERNIN
Director

GREG MacKENZIE
Director

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Equity at beginning of the year	4,069,406	2,746,562
Parliamentary appropriation (Note 9)	9,786,720	14,700,000
	13,856,126	17,446,562
Less: Net cost of operations	9,506,445	13,377,156
Equity at end of the year	4,349,681	4,069,406

See accompanying notes.

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Program expenses		
Development expenses		
Tourism, entertainment & culture	2,751,138	4,871,827
Specific initiatives	1,611,094	3,151,443
Other business development	499,032	610,786
Knowledge-based industries	492,466	677,512
Youth skills	414,480	437,788
Resource industries	222,691	108,501
	5,990,901	9,857,857
Other program expenses		
Program support	1,263,016	1,334,135
Rental facilities	692,166	710,186
Provision for loan impairment	539,631	673,008
Provision for doubtful investments	300,000	100,000
	2,794,813	2,817,329
Total program expenses	8,785,714	12,675,186
Administrative expenses	1,532,097	1,465,857
Amortization	161,645	84,606
	1,693,742	1,550,463
Total expenses	10,479,456	14,225,649
Revenue		
Rental facilities	679,174	612,891
Interest and investment income	209,917	235,602
Other income	83,920	
Total revenue	973,011	848,493
Activities carried out on behalf of the Atlantic Canada Opportunities Agency (Note 11)		
Program expenses	15,826,716	17,791,567
Salaries, professional and other services	1,243,788	1,299,180
	17,070,504	19,090,747
Less: Costs recovered	(17,070,504)	(19,090,747)
Net cost of operations	9,506,445	13,377,156

See accompanying notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Financing activities		
Parliamentary appropriation	9,786,720	14,700,000
Operating activities		
Net cost of operations	(9,506,445)	(13,377,156)
Charges (credits) not affecting cash		
Amortization	161,645	84,606
Gain on disposal of capital assets	(25,560)	
Increase in provision for employee termination benefits	59,792	43,986
Provision for doubtful investments	300,000	100,000
Provision for loan impairment	539,631	673,008
	(8,470,937)	(12,475,556)
Decrease (increase) in non-cash operating working capital	2,152,198	(842,622)
Employee termination benefit payments	(48,578)	(15,909)
Cash used in operating activities	(6,367,317)	(13,334,087)
Investing activities		
Loan advances	(1,270,508)	(1,170,745)
Loan repayments	142,263	514,068
Purchase of investments	(100,000)	(700,000)
Purchase of capital assets	(168,911)	(133,254)
Proceeds from sale of capital assets	25,560	
Cash used in investing activities	(1,371,596)	(1,489,931)
Increase (decrease) in bank indebtedness and term deposits	2,047,807	(124,018)
Bank indebtedness and term deposits at beginning of the year	388,734	512,752
Bank indebtedness and term deposits at end of the year	2,436,541	388,734

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1998

1. The Corporation

Authority and objectives

Enterprise Cape Breton Corporation was established pursuant to the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act*, Atlantic Canada, 1987) which was proclaimed on December 1, 1988. The Corporation is an agent Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. Its objects, as stated in its enabling legislation, are:

> to promote and assist either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

2. Significant accounting policies

(a) Parliamentary appropriations

Parliamentary appropriations are recorded in the statement of equity on an accrual basis when approved by Parliament with drawdowns based on cash requirements.

(b) Management estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: the allowance for loan impairment (see also Notes 5 and 6) and the allowance for doubtful investments.

(c) Loans

Loans, including repayable contributions, are recorded at the lower of cost and estimated net realizable value.

Certain loans are subject to terms of forgiveness as stipulated in the loan contract. The amount of forgiveness is charged to operations when the loan is issued.

Loans are written off after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is unlikely.

(d) Allowance for loan impairment

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and interest, where applicable. A specific allowance is established to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. When future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

A general allowance is established in respect of loans for which individual specific provisions cannot yet be determined. The general allowance is based upon an evaluation of the loan portfolio in which numerous factors are assessed, including an analysis of arrears, past loss experience, recent events and changes in economic conditions.

Initial and subsequent changes in the amount of impairment are recorded as a charge or credit to the provision for loan impairment.

(e) Interest income

Interest income is recorded on the accrual basis. When a loan becomes impaired, interest income ceases to be recognized. Recognition of interest income recommences if the specific allowance for loan impairment is recovered.

(f) Investments

The Corporation has invested in preferred equity holdings and partnerships. These are shown at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows. Investment income is recorded on an accrual basis.

(g) Capital assets

Capital assets are recorded at the lower of cost less accumulated amortization and net recoverable value. Amortization is provided over the estimated useful lives of the capital assets using the straight-line method at the rates indicated below:

Buildings	up to 25 years
Equipment and furniture	4 to 10 years
Computer equipment and software	5 years
Leasehold improvements	up to 20 years
Vehicles	3 or 4 years

(h) Pension plan

All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required equally from the employees and the Corporation. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(i) Termination benefits

Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

The liability for termination benefits is estimated by management based on current entitlements.

3. Term deposits

The Corporation has term deposits with a major Canadian chartered bank in the amount of $2,886,378 (1997—$1,795,534). The term deposits have effective rates of interest ranging from 4.75% to 4.83% (1997—3.04% to 3.14%) and mature within one year. The fair values of the term deposits approximate their carrying value.

4. Accounts receivable and accounts payable

Accounts receivable are comprised of the following:

	1998	1997
	$	$
Due from the Atlantic Canada Opportunities Agency (Note 11)	3,144,982	1,267,440
Other receivables	253,468	189,715
	3,398,450	1,457,155

The amount from the Atlantic Canada Opportunities Agency relates to expenditures made on behalf of the Agency in accordance with a memorandum of understanding. Other receivables are incurred in the normal course of business with no significant concentration of debtors.

Accounts receivable and accounts payable are due on demand, are non-interest bearing and the carrying amounts approximate fair values because of their short maturity.

5. Loans

	1998	1997
	$	$
Loans	2,657,694	2,534,403
Repayable contributions	2,442,749	1,590,756
Interest receivable	45,707	27,848
	5,146,150	4,153,007
Less: Allowance for loan impairment (Note 6)	2,204,248	1,799,719
	2,941,902	2,353,288

Loans for which the final conditions of forgiveness have not been met are valued at $128,257 (1997—$139,916). These loans have been charged to operations in either the current or previous years. However, if certain terms and conditions of the letter of commitment are not fulfilled, the loan may become due and payable by the client.

Loans are issued in order to promote economic development. All loans are issued to individuals and businesses which conduct their business in Cape Breton. In 1998, four debtors accounted for 50% of the March 31 loan balance (1997—three debtors, 40% of the loan balance).

The fair values of loans are determined using expected future cash flows discounted at the Consolidated Revenue Fund lending rate to Crown corporations. The fair values of loans approximate $2.5 million (1997—approximated their carrying value).

An analysis of the loan balance outstanding at March 31 is as follows:

Annual interest rate	1998	1997
	$	$
0%	3,975,934	2,924,621
Less than 10%	597,837	640,448
10% and over	526,672	560,090
	5,100,443	4,125,159
Interest receivable	45,707	27,848
	5,146,150	4,153,007
Less: Allowance for loan impairment (Note 6)	2,204,248	1,799,719
	2,941,902	2,353,288

The interest rates are fixed over the terms of the loans.

Amounts due by fiscal year based on loan terms are as follows:

	1998	1997
	$	$
Principal		
Past due	426,246	288,691
1998		515,843
1999	418,143	882,954
2000	497,113	467,798
2001	362,391	356,189
2002	449,743	476,394
2003 and beyond	2,946,807	1,137,290
	5,100,443	4,125,159
Interest receivable	45,707	27,848
	5,146,150	4,153,007
Less: Allowance for loan impairment (Note 6)	2,204,248	1,799,719
	2,941,902	2,353,288

6. Allowance for loan impairment

	1998			1997
	Specific	General	Total	Total
	$	$	$	$
Balance at beginning of the year	1,599,719	200,000	1,799,719	1,251,595
Write-offs due to restructuring				(15,511)
Write-offs	(135,102)		(135,102)	(109,373)
Provision for loan impairment	439,631	100,000	539,631	673,008
Balance at end of the year	1,904,248	300,000	2,204,248	1,799,719

The investment value of those loans specifically identified as being impaired is $2,834,458 (1997—$1,814,740).

7. Investments

Investments are made in order to promote economic development. All investments are made with businesses which conduct their business in Cape Breton.

The Corporation has an interest of $300,000 (1997—$300,000) in an office building and shares in the net income earned based on its percentage interest. The Corporation's share of net income is $65,312 (1997—$73,101).

The Corporation also holds $850,000 (1997—$750,000) in non-voting, redeemable and retractable preferred shares and partnership units in private sector entities. No dividends were received or declared during the year.

The fair values of investments are determined using discounted contracted future cash flows. The fair values of investments approximate their carrying value.

8. Capital assets

	1998			1997		
	Cost	Accumulated amortization and write down	Net book value	Cost	Accumulated amortization and write down	Net book value
	$	$	$	$	$	$
Land for development	482,319	482,318	1	532,441	532,440	1
Equipment, furniture, leaseholds	1,157,288	992,403	164,885	1,120,302	962,683	157,619
Rental facilities	15,678,601	15,678,601		15,565,585	15,565,585	
	17,318,208	17,153,322	164,886	17,218,328	17,060,708	157,620

9. Funding from Government of Canada

The Government of Canada approved and the Corporation utilized a parliamentary appropriation in the amount of $9,786,720 (1997—$14,700,000).

10. Commitments

(a) As at March 31, 1998 the Corporation had outstanding commitments for development programs in the amount of $3,242,143 (1997—$3,802,968).

(b) Future minimum payments by fiscal year on operating leases in excess of one year are as follows:

	$
1999	445,579
2000	445,579
2001 and beyond	62,310
	953,468

11. Related party transactions

The Corporation entered into a memorandum of understanding with the Atlantic Canada Opportunities Agency establishing the arrangements for the Corporation to deliver the Agency's programs on the Island of Cape Breton. As of March 31, 1998, the Agency reimbursed the cost of its program activities and related program delivery provided by the Corporation except for the amount included in accounts receivable of $3,144,982 (1997—$1,267,440).

The cost of services provided by other federal government departments, agencies, and Crown corporations are reflected in the statement of operations and totalled $376,700 (1997—$418,254). These transactions are in the normal course of operations and are measured at the exchange amount.

12. Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted for the current year.

EXPORT DEVELOPMENT CORPORATION

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

The Board of Directors of EDC is responsible for all business undertaken by the Corporation. Contracts which, in the opinion of the Board of Directors, involve risks for a term or an amount in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Governor General in Council where the Minister considers them to be in the national interest. The Board of Directors has the predominant role in the management of this program and is solely responsible for its administration. Funds required for such contracts are paid to the Corporation by Canada, and funds recovered are remitted to Canada, net of amounts withheld to cover related administrative expenses. Canada Account transactions are shown in Note 19 to the Corporation's consolidated financial statements.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the consolidated financial statements. His report is presented on the following page.

A. Ian Gillespie
President and Chief Executive Officer

John Gagan
Vice-President and Corporate Controller

AUDITOR'S REPORT

TO THE MINISTER FOR INTERNATIONAL TRADE

I have audited the consolidated balance sheet of Export Development Corporation as at December 31, 1997 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly owned subsidiary.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 4, 1998

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1997
(in millions of dollars)

ASSETS	1997	1996
CASH AND INVESTMENTS		
Cash and marketable securities (Note 3)	1,519	1,037
Investments (Note 4)	408	407
Accrued interest	21	15
	1,948	1,459
LOANS RECEIVABLE		
Net loans receivable (Notes 5, 6 and 7)	9,663	8,083
Accrued interest and fees	168	139
	9,831	8,222
OTHER		
Recoverable insurance claims (Note 10)	28	25
Other assets	45	35
	73	60
Total assets	11,852	9,741

LIABILITIES AND SHAREHOLDER'S EQUITY	1997	1996
LOANS PAYABLE (Notes 12 and 13)		
Loans payable	9,556	7,735
Accrued interest	103	94
	9,659	7,829
OTHER LIABILITIES AND DEFERRED REVENUES		
Accounts payable	84	80
Deferred insurance premiums	17	11
Allowance for claims on insurance and guarantees (Note 10)	336	240
Deferred loan revenues and other credits	211	164
	648	495
Loan commitments and insurance and guarantees (Notes 8 and 9)		
SHAREHOLDER'S EQUITY		
Share capital (Note 14)	983	983
Retained earnings	562	434
	1,545	1,417
Total liabilities and shareholder's equity	11,852	9,741

See accompanying notes.

Approved by the Board of Directors:

W. R. C. BLUNDELL
Director

A. IAN GILLESPIE
Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1997
(in millions of dollars)

	1997	1996
Interest income		
Loan interest earned	752	671
Investment interest earned	92	99
	844	770
Interest expense	481	437
Net interest income	363	333
Premium and fee income		
Insurance premiums and guarantee fees	99	92
Other fees	30	17
	129	109
Provision for credit losses (Note 11)	295	270
Income after provision for credit losses	197	172
Administrative expenses	69	60
Net income	128	112
Retained earnings		
Beginning of year	434	322
End of year	562	434

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1997
(in millions of dollars)

	1997	1996
Operating activities		
Net income	128	112
Items not affecting cash		
Provision for credit losses	295	270
Net (increase)/decrease in accrued interest and fees	(25)	(38)
Net increase/(decrease) in deferred revenue	44	(10)
Other changes	(25)	(49)
Cash provided	417	285
Lending activities		
Loan disbursements	(3,321)	(2,463)
Loan repayments	1,860	1,980
Items not affecting cash		
Interest rescheduled	(55)	(33)
Cash used	(1,516)	(516)
Financing activities		
Issue of long-term loans payable	1,730	1,775
Repayment of long-term loans payable	(1,409)	(1,530)
Increase/(decrease) in short-term loans payable	1,261	(161)
Issue of share capital		132
Increase in investments	(1)	(168)
Cash provided	1,581	48
Increase/(decrease) in cash and marketable securities	482	(183)
Cash and marketable securities		
Beginning of year	1,037	1,220
End of year	1,519	1,037

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1997

1. Corporate mandate and activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969 by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada which was amended on June 10, 1993. The Corporation was created as an agent of Her Majesty in right of Canada for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed $15 billion, an amount equal to 10 times the authorized capital of the Corporation. As at December 31, 1997, the position against this limit is $11.5 billion (1996—$8.9 billion).

As an agent of Her Majesty in right of Canada, debt instruments issued by the Corporation carry the full faith and credit of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited financial statements. This limit for borrowing as at December 31, 1997 is $21.3 billion (1996—$19.6 billion), against which borrowings amounted to $9.6 billion (1996—$7.7 billion).

2. Summary of significant accounting policies

Cash and marketable securities

Securities which are being held to maturity are carried at cost. Gains and losses on these securities are recognized in income only when they are realized and the asset is removed from the balance sheet. Available for sale securities are carried at market value. The gains and losses arising from securities carried at market value are included in investment interest earned.

Net loans receivable

Net loans receivable are stated net of non-accrued capitalized interest and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest earned until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada has fully compensated the Corporation for all amounts forgiven at the Paris Club, and these payments for impaired loans or loans previously classified as impaired are credited to the book value of the loans. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan fees, mainly exposure fees and administration fees, are normally amortized over the disbursement and repayment term of the related loan.

Measurement uncertainty

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary to use accounting estimates. The most significant of these estimates are the allowance for losses on loans (Note 7) and the allowance for claims on insurance and guarantees (Note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed in detail annually. However, actual loan losses and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur that render previous assumptions invalid and cause a material change to the accounting estimates.

The general allowance for loan losses is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated using estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the Recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for loan losses.

In 1997, EDC enhanced its methodology for estimating the allowance for losses on loans. See Note 7 for further discussion.

Allowance for losses on loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

General allowances include all accumulated provisions for losses on loans which are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for loan losses. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio.

Recoverable insurance claims

Recoverable insurance claims payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

Allowance for claims on insurance and guarantees

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for loans.

Insurance premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative financial instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These contracts are carried on a cost basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related.

Translation of foreign currency

All assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest expense

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

3. Cash and marketable securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or available for sale portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Available for sale securities are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

	Remaining term to maturity			1997	1996
	Under 1 Year	1 to 3 Years	Over 3 years	Total	Total
			(in millions of dollars)		
Investment portfolio					
Fixed rate securities	122	182	259	563	258
Swap contracts	(112)	(25)		(137)	(192)
Net fixed	10	157	259	426	66
Yield to maturity %	*5.27*	*5.95*	*6.13*	*6.04*	*6.88*
Floating rate securities	565	70	10	645	669
Swap contracts	123	27		150	192
Net floating	688	97	10	795	861
Yield to reset %				*5.23*	*4.84*
Total investment portfolio	698	254	269	1,221	927
Available for sale portfolio					
Fixed rate securities					17
Floating rate securities	298			298	93
Total available for sale portfolio	298			298	110
Spot yield %				*4.43*	*4.64*
Value at purchase	*297*			*297*	*115*
Total cash and marketable securities	996	254	269	1,519	1,037

Credit exposure arises from the possibility that a counterparty may default on its obligations. Credit exposure related to securities held in the investment portfolio and the available for sale portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts that have a positive fair value (a contract which, if settled currently, would result in a gain). Credit exposure for swap contracts held in the investment portfolio is included as part of Note 16.

4. Investments

Investments comprise $102 million (1996—$99 million) of cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by three Crown corporations: Ridley Terminals, Inc., Vancouver Port Corporation and the Royal Canadian Mint, totaling $306 million (1996—$308 million). These Crown corporations are related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. These investments were made in the normal course of business, transacted at fair value, and are recorded at cost.

			1997	1996
	Amount	Yield*	Term*	Amount
		(in millions of dollars)		
Fixed rate investments	306	7.40%	52 months	300
Floating rate investments	102	3.89%	1 month	107
Total	408			407

* Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.

5. Net loans receivable

The following table shows the contractual maturity along with related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

	1997					1996				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
	(in millions of dollars)									
Performming										
Overdue	1	10.45	7	0.94	8	6	8.96	1	1.24	7
1997						605	8.83	775	1.14	1,380
1998	681	9.03	1,046	1.87	1,727	548	9.17	506	1.67	1,054
1999	629	9.00	614	1.83	1,243	468	9.27	497	1.68	965
2000	523	9.01	618	1.89	1,141	418	9.21	393	1.77	811
2001	656	9.05	551	1.81	1,207	545	9.23	381	1.69	926
2002	508	8.78	452	1.73	960	370	9.09	276	1.47	646
2003-2007	1,438	8.39	1,422	1.30	2,860	1,038	8.62	813	0.61	1,851
2008 and beyond	844	8.46	598	0.71	1,442	477	8.99	468	0.46	945
Performing	5,280	8.56	5,308	1.58	10,588	4,475	8.92	4,110	1.24	8,585
Impaired (Note 6)	183		1,602		1,785	257		1,662		1,919
Gross loans receivable	5,463		6,910		12,373	4,732		5,772		10,504
Less: Non-accrued capitalized interest on										
—Impaired loans (Note 6)					831					774
—Performing loans*					251					224
Loans receivable					11,291					9,506
Less: Allowance for losses on loans (Note 7)					1,628					1,423
Net loans receivable					9,663					8,083

*Represents the unamortized balance that accrued while the loan was impaired.

At December 31, 1997, the floating rate performing gross loans receivable are yielding 7.26% (1996—6.52%) with an average term to reset of 99 days (1996—88 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

	1997					1996				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
	(in millions of dollars)									
Sovereign	2,970	8.70	2,347	1.12	5,317	2,785	8.85	2,148	0.93	4,933
Commercial	2,310	8.45	2,961	1.92	5,271	1,690	8.99	1,962	1.63	3,652
Total	5,280	8.56	5,308	1.58	10,588	4,475	8.92	4,110	1.24	8,585

6. Impaired loans receivable

The Corporation has $1,785 million impaired gross loans receivable (1996—$1,919 million) of which $1,682 million is sovereign (1996—$1,787 million) and $103 million is commercial (1996—$132 million). The following reflects the movement in the impaired loans portfolio during the year:

	1997	1996
	(in millions of dollars)	
Balance at beginning of year	1,919	1,895
Loans classified as impaired		29
Loans reinstated to performing	(142)	
Sale of impaired assets	(31)	
Capitalized interest	74	78
Principal repayments	(50)	(55)
Compensation from the Government of Canada for debt relief	(17)	(26)
Foreign exchange	32	(2)
Balance at end of year	1,785	1,919

The largest concentrations of gross loans receivable for impaired loans are listed in the following table. Non-accrued interest represents contractually earned interest that has not been capitalized through rescheduling agreements.

	1997			1996		
	Gross loans receivable	Non-accrued capitalized interest*	Non-accrued interest	Gross loans receivable	Non-accrued capitalized interest*	Non-accrued interset
	(in millions of dollars)					
Sovereign						
Peru	632	424	6	571	340	39
Cameroon	386	151	42	400	150	18
Côte d'Ivoire	262	124	15	252	111	5
Russia	117	41	2	112	31	4
Congo	53	38	2	55	35	2
Other	232	53	136	397	107	121
Sub-total	1,682	831	203	1,787	774	189
Commercial	103		87	132		71
Total impaired	1,785	831	290	1,919	774	260

*Non-accrued capitalized interest is included in gross loans receivable.

During 1997, payments from borrowers for impaired loans were $86 million (1996—$89 million). These amounts were applied to the book value of the impaired loans and did not affect interest earned.

7. Allowance for losses on loans

The composition of the allowance for losses on loans is as follows:

	1997			1996		
	Sovereign	Commercial	Total	Sovereign	Commercial	Total
	(in millions of dollars)					
Specific allowance for impaired loans	390	98	488	534	127	661
General allowance	540	600	1,140	456	306	762
Total	930	698	1,628	990	433	1,423

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows which are then discounted using rates inherent in agreements.

During the year, the Corporation enhanced its methodology for estimating the general allowance for loan losses. This enhancement is part of the continuing process to more accurately reflect the current economic conditions and their impact on credit migration. The methodology incorporates the historical default rates of corporate bond issuers as determined by external credit-rating agencies, and the Corporation's own severity of loss experience. The risk concentration component of the allowance for loan losses has been reclassified as a result of the improved methodology. These enhancements resulted in an increase of $52 million in the allowance for loan losses as at December 31, 1997.

The Corporation has significant geographic concentrations in below investment grade and speculative grade countries, as determined by external credit-rating agencies. Seven such countries represent $3,003 million or 28% of the Corporation's performing loans receivable. In addition, the Corporation has a single counterparty loan receivable of $721 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

	1997	1996
	(in millions of dollars)	
Balance at beginning of year	1,423	1,233
Provision for losses on loans	184	190
Interest reversal for impaired loans		
Write-off	(18)	(1)
Foreign exchange	39	1
Balance at end of year	1,628	1,423

8. Loan commitments

The Corporation has undisbursed commitments of $6,482 million (1996—$2,863 million). The Corporation expects to fund these undisbursed commitments near the time of their disbursement. Over the next two years, the Corporation expects to disburse 72% of the remaining undisbursed balances. The Corporation generally attempts to match debt maturities and currencies with those of its loan assets on a portfolio basis. Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars. In 1996, the Corporation was committed to disburse $223 million which had a fixed rate effective yield that was indeterminable and therefore was not included in the table.

	1997				1996			
	Fixed $	Spot yield %	Floating $	Spread %	Fixed $	Spot yield %	Floating $	Spread %
	(in millions of dollars)							
Sovereign	2,385	7.98	561	2.44	417	8.41	409	2.49
Commercial	167	8.14	3,369	2.39	75	9.72	1,739	1.14
Total	2,552	8.00	3,930	2.40	492	8.61	2,148	1.40

9. Contingent liabilities

The Corporation has insurance policies in force and guarantees outstanding of $8,724 million (1996—$7,432 million) which mature as follows:

	1997	1996
	(in millions of dollars)	
Short-term program	5,700	5,081
Medium-term program		
1997		370
1998	546	340
1999	467	295
2000	443	97
2001	379	395
2002	197	62
2003-2007	658	427
2008 and beyond	334	365
Total	8,724	7,432

The major concentrations by location of ultimate risk are as follows:

	1997			1996		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
	(in millions of dollars					
U.S.	2,317	62	2,379	1,580	38	1,618
Canada	975	443	1,418	612	312	924
U.K.	128	240	368			
Brazil				585	19	604
Japan	332	1	333			
Iran				390	60	450
Mexico	297	20	317	391	14	405
Other	1,651	2,258	3,909	1,523	1,908	3,431
Total	5,700	3,024	8,724	5,081	2,351	7,432

Reinsurance of $78 million (1996—$122 million) has been deducted from the insurance policies in force.

10. Recoverable insurance claims and allowance for claims on insurance and guarantees

During the year, changes to the recoverable insurance claims were as follows:

	1997	1996
	(in millions of dollars)	
Balance at beginning of year	25	20
Claims paid	43	60
Claims recovered	(16)	(11)
Re-evaluation of recoverable claims	(24)	(43)
Foreign exchange		(1)
Balance at end of year	28	25

Of the $43 million in claim payments made during 1997, 95% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

	1997		1996	
	Claims paid	Claims recovered	Claims paid	Claims recovered
	(in millions of dollars)			
U.S.	25	5	16	3
Canada	7	3	5	1
Mexico	3	1		
France	2	1		
China	1			
Cuba			20	3
Brazil			4	
Spain			4	
Other	5	6	11	4
Total	43	16	60	11

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

	1997	1996
	(in millions of dollars)	
Balance at beginning of year	240	204
Provision for claims on insurance	59	68
Provision for loan guarantees	52	12
Re-evaluation of recoverable claims	(24)	(43)
Foreign exchange	9	(1)
Balance at end of year	336	240

11. Provision for credit losses

The composition of the provision for credit losses is as follows:

	1997	1996
	(in millions of dollars)	
Provision for losses on loans	184	190
Provision for claims on insurance	59	68
Provision for loan guarantees	52	12
Provision for credit losses	295	270

12. Loans payable

The Corporation issues debt instruments in world capital markets. Short-term payables represent liabilities of the Corporation that are issued with maturities under one year. Long-term debt instruments are issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. The Corporation utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. Derivative contracts and structured notes are used to minimize the cost of capital and are also used for asset/liability management purposes.

Loans payable are comprised as follows:

	1997		1996	
	Loans payable	Interest expense	Loans payable	Interest expense
	(in millions of dollars)			
Short-term payables	2,120	53	853	52
Long-term payables				
—due within current year	2,005		724	
—over one year	5,383	428	6,103	385
Sub-total	9,508	481	7,680	437
Plus: unamortized discounts and premiums	14		11	
deferrals	34		44	
Total loans payable	9,556		7,735	

Discounts and premiums are related to the issue of long-term debt and swaps. Deferrals include gains and losses incurred upon debt repurchases and swap unwinds.

Accrued interest reflects the corporate cash flow obligation. It can be broken down into its component parts as follows:

	1997	1996
	(in millions of dollars)	
Short-term	13	4
Long-term		
—Debt issued	313	229
—Swap contracts	(223)	(139)
Total accrued interest	103	94

The accrued interest for the above swap contracts is presented on a net basis.

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

	1997	1996
	(in millions of dollars)	
Equity index linked	502	467
Dual currency	923	1,034
Step-up	300	209
Callable/extendible	166	78
Other	171	163
Total	2,062	1,951

The Corporation has executed swap contracts to remove market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has synthetically created floating rate debt. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by dealing with counterparties evaluated as creditworthy, through management limits to counterparties and other credit mitigation techniques. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Loans payable maturities

Loans payable and related notional swap amounts mature as follows:

			1997		1996
Year of maturity	Issues	Swap contracts	Net	Yield* (%)	Net
			(in millions of dollars)		
Fixed rate issues					
1997					270
1998	1,928	(1,217)	711	6.88	687
1999	1,119	(333)	786	6.99	753
2000	1,319	(1,033)	286	8.74	273
2001	530	(530)			
2002	720	(577)	143	7.81	137
2003 to 2007	988	(841)	147	8.75	141
2008 and beyond	314	(60)	254	8.31	244
Sub-total	6,918	(4,591)	2,327	8.29	2,505
Floating rate issues					
1997					1,307
1998	2,120	1,294	3,414		1,159
1999	78	396	474		632
2000	8	1,027	1,035		520
2001	71	518	589		345
2002		584	584		441
2003 to 2007	164	860	1,024		771
2008 and beyond		61	61		
Sub-total	2,441	4,740	7,181	5.66	5,175
Total	9,359	149	9,508		7,680

*Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1996—9.8 million). No shares were issued in 1997 (1996—1.3 million).

15. Foreign currency balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, the Corporation has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while sustaining prudent levels of risk.

The following chart shows where the Corporation has created synthetic debt and asset positions through such instruments and the resulting net foreign currency exposure (expressed in Canadian equivalent dollars).

	Assets			Liabilities			1997		1996
	Gross	D.F.I*.	Net	Gross	D.F.I*.	Net	Exposure	Rate	Exposure	Rate
					(in millions of dollars)					
European Currency Units ..	29	(6)	23				23	1.5713	15	1.7219
British Pounds	244		244	(631)	403	(228)	16	2.3472	9	2.3454
Deutsche Marks	388		388	(413)	11	(402)	(14)	0.7944	(53)	0.8900
U.S. Dollars	8,690	406	9,096	(6,390)	(2,716)	(9,106)	(10)	1.4291	163	1.3696
Italian Lira				(163)	162	(1)	(1)	.000808	(2)	0.0009
Swiss Francs								0.9777	(1)	1.0232
Australian Dollars	13	(13)		(424)	424			0.9315		1.0886
Japanese Yen	5	(4)	1	(292)	291	(1)		0.01095		0.0118
New Zealand Dollars				(49)	49			0.8294		0.9690

* "Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.

The Corporation incurred a foreign exchange gain of $7.8 million in 1997 (1996—gain of $11 million). This amount is included in interest expense.

16. Derivative financial instruments

The Treasury Division actively manages EDC's exposure to market risk through the use of derivative financial instruments held for non-trading purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps—transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps—transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity index swaps—transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts—commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward rate agreements—a short-term contract between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures—future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options—contracts which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there are always inherent risks of loss. These risks are classified as (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, or (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by dealing only with financial institutions having original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1996—$20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31, 1997 are listed below.

	Remaining term to maturity				1997	1996
	Under one year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
	(in millions of dollars)					
Currency swaps	894	1,284	674	535	3,387	2,684
Interest rate swaps	1,133	433	500	550	2,616	2,514
Foreign exchange contracts	897				897	1,007
Total all swaps	2,924	1,717	1,174	1,085	6,900	6,205
Fair value of swaps						
Positive	39	132	44	104	319	304
Negative	100	104	23	17	244	105

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair value of financial instruments

The chart below outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined below do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

	1997		1996	
BALANCE SHEET ITEMS	Book value	Fair value	Book value	Fair value
	(in millions of dollars)			
Cash and marketable securities				
Fixed rate securities	579	584	284	288
Floating rate securities	947	947	768	765
Investments	414	430	407	423
Loans receivable				
Performing fixed rate	4,939	5,599	4,187	4,483
Performing floating rate	4,426	5,191	3,551	3,894
Impaired	466	466	484	484
Accounts payable	84	84	80	80
Loans payable				
Fixed rate	2,327	2,371	2,505	2,593
Floating rate	7,181	7,181	5,269	5,269

	1997		1996	
OFF-BALANCE SHEET ITEMS	Notional	Fair value	Notional	Fair value
	(in millions of dollars)			
Currency swap contracts	3,387	(34)	2,684	119
Interest rate swap contracts	2,616	113	2,514	89
Foreign exchange contracts	897	(4)	1,007	(9)
Undisbursed loan commitments				
Fixed rate	2,459	213	n/a	n/a
Floating rate	3,354	30	n/a	n/a

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate. The notional values reported are the expected net loans receivable to be disbursed under these commitments. Comparative fair values of undisbursed loan commitments for 1996 have not been provided due to the lack of availability of data.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is carrying value. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach.

18. Related party transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

During 1997, the Corporation received from the Government of Canada $17 million (1996—$101 million) for principal pursuant to debt relief arrangements. In addition, the Corporation has loans receivable of $149 million and undisbursed commitments of $1,351 million, for which it has recourse to the Government of Canada in the event of a loan default.

19. Canada Account transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and legislative authorities which underlie them have come to be known collectively as the "Canada Account". The Board of Directors is only responsible for the management and the administration of the program. Accounts for the program are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $2,941 million at December 31, 1997 (1996—$2,899 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $5,565 million (1996—$4,165 million). Reinsurance of $64 million has been deducted from the insurance policies in force.

The Corporation retained $19 million (1996—$17 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

20. Reclassification of comparative figures

Certain 1996 comparative figures have been reclassified to conform with the presentation adopted in 1997.

FARM CREDIT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

John J. Ryan
President and Chief Executive Officer

Moyez Somani
Chief Financial Officer

Regina, Canada

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE AND AGRI-FOOD

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1998 and the statements of operations and retained earnings/(deficit) and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1998	1997
Cash and short-term investments (Note 3)	237,605	241,014
Accounts receivable and other accrued assets	44,158	28,928
Long-term investments (Note 4)	149,613	79,227
Loans receivable (Notes 5 and 6)	5,136,138	4,521,604
Real estate acquired in settlement of loans (Note 7)	123,481	139,629
Equipment and leasehold improvements	15,208	12,065
	5,706,203	5,022,467

LIABILITIES	1998	1997
NISA investments held (Note 8)	93,754	17,552
Accounts payable and accrued liabilities	19,748	27,373
Short-term notes (Note 9)	945,658	747,667
Other liabilities and deferred fees (Note 10)	35,080	18,273
Loans payable (Note 11)	4,062,676	3,753,877
	5,156,916	4,564,742
EQUITY		
Capital (Notes 1 and 12)	507,725	1,118,333
Retained earnings/(deficit) (Note 12)	41,562	(660,608)
	549,287	457,725
	5,706,203	5,022,467

The accompanying notes are an integral part of the financial statements.

Approved:

DONALD W. BLACK
Chair, Board of Directors

WARREN ELLIS
Chair, Audit Committee

STATEMENT OF OPERATIONS AND RETAINED EARNINGS/(DEFICIT) FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Interest income		
Loans receivable	408,237	406,351
Investment income	22,762	13,420
	430,999	419,771
Interest expense	296,857	278,053
Net interest income	134,142	141,718
Provision for credit losses (Note 6)	18,748	23,986
Net interest income after provision for credit losses	115,394	117,732
Lease and real estate income		
Lease and other revenue	22,808	20,299
Operating expenses	2,853	2,960
Interest expense	6,948	10,264
Net lease and real estate income	13,007	7,075
Other income	9,464	6,519
Income before other expenses	137,865	131,326
Other expenses		
Administrative expenses	90,078	84,104
Income taxes (Note 13)	6,225	6,628
Other expenses	96,303	90,732
Net income for the year	41,562	40,594
Deficit, beginning of the year	(660,608)	(698,502)
Reallocation of contributed capital to eliminate deficit (Note 12)	660,608	
Dividends (Note 1)		(2,700)
Retained earnings/(deficit), end of the year	41,562	(660,608)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Operating activities		
Net income	41,562	40,594
Items not involving cash		
Provision for credit losses	18,748	23,986
Change in accrued interest receivable	(24,648)	6,243
Change in accrued interest payable	33,015	(1,058)
Other	11,356	22,043
Cash provided by operating activities	80,033	91,808
Investing activities		
Long-term investments	(71,894)	(18,042)
Loans receivable disbursed	(1,504,200)	(1,342,900)
Loans receivable repaid	870,697	704,275
Change in real estate held	16,148	13,839
Other	15,010	(9,051)
Cash used in investing activities	(674,239)	(651,879)
Financing activities		
Loans repaid to Canada	(503,963)	(134,014)
Loans from capital markets	1,014,311	808,139
Loans repaid to capital markets	(243,744)	(378,136)
Increase in capital	50,000	
Change in short-term notes	197,991	291,298
Change in NISA investments held	76,202	17,552
Dividends paid		(2,700)
Cash provided by financing activities	590,797	602,139
(Decrease) increase in cash and short-term investments	(3,409)	42,068
Cash and short-term investments, beginning of the year	241,014	198,946
Cash and short-term investments, end of the year	237,605	241,014

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (the Corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

(b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of a reallocation to eliminate the accumulated deficit approved effective March 31, 1998. Further details regarding this reallocation are described in Note 12.

As of March 31, 1998, capital payments received from the Government of Canada amounted to $1,168 million (1997—$1,118 million). The statutory limit for that same period was $1,175 million (1997—$1,125 million).

(c) Dividends

No dividends were declared or paid in the current year (1997—$2.7 million).

(d) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities to 12 times the equity of the Corporation. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 1998, the Corporation's total liabilities were 9.4 times the equity of $549.3 million (1997—10.0 times the equity of $457.7 million).

2. Significant accounting policies

(a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, gains and losses on disposal, amortization of premiums and discounts and write-downs to market value are reported in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in current year income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the life of the related funding instruments.

(b) Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is well secured and in the process of collection.

Interest income is recorded on the accrual basis until such time as a loan is specifically classified as impaired. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. All payments on the loan are credited against the recorded investment in the loan. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans. Other loan fees are recorded as other income on the same basis as the related costs.

(c) Allowance for credit losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in the light of current trends. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, in establishing the general component of the allowance, management also considers the impact of specific factors, such as land value trends, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Since future agricultural and economic conditions are not predictable with certainty, actual loan losses may vary from management's estimate.

The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

(d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

(e) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term plus the first renewal option

(f) Capital leases

Leases that transfer substantially all of the benefits and inherent risks of ownership of the leased property to the Corporation are capitalized by recording the present value of the lease payments as assets and liabilities. The leased property is then amortized to income (using the straight-line method) over its estimated useful life which in most cases will correspond to the lease term. Lease payments are recorded partly against the amount of the obligation and partly to interest expense.

(g) Translation of foreign currencies

Loans receivable/payable and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

(h) Loans payable

The difference between the ultimate amounts payable (at the initial exchange rates if the loans payable are denominated in foreign currency) and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for loans with equity-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

(i) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency, interest rate and equity-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated and effective as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in current income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with net accrued interest receivable or payable recorded as a component of either accounts receivable and other accrued assets or accounts payable and accrued liabilities. Premiums on the option contracts are amortized on a straight-line basis over the lives of the underlying instruments and reported as an adjustment to interest income or expense. Realized gains or losses from interest rate options are deferred and recognized in income over the lives of the hedged positions as an adjustment to income or expense of the hedged item.

(j) Pension and other post-retirement employee benefits

Employees participate in the Public Service Superannuation plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

Upon retirement, employees under the age of 65 are entitled to basic life insurance coverage. The Corporation recognizes the premium costs as incurred.

(k) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or settlements are reasonably determinable.

(l) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Cash and short-term investments

	Effective interest rate	1998	1997
	%	(in thousands of dollars)	
Cash		19,733	15,563
Short-term investments	4.08–5.05	216,572	223,831
Accrued interest		1,300	1,620
		237,605	241,014
Short-term investments consist of instruments with maturities of less than one year, issued by			
The Government of Canada and its agencies and Crowns		80,051	145,139
Other		136,521	78,692
		216,572	223,831

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R-1M or higher. As at March 31, 1998, the largest total investment in any one institution was $28.7 million (1997—$25.0 million) and the Corporation held investments in eight separate institutions (1997—four institutions).

4. Long-term investments

	Stated interest rate	1998	1997
	%	(in thousands of dollars)	
Amounts due within			
1 year	6.25–6.50	50,000	41,500
1–5 years	5.50	80,000	15,000
Over 5 years	9.00	15,000	18,500
		145,000	75,000
Unamortized premium and discount		3,357	3,150
Accrued interest		1,256	1,077
		149,613	79,227

Long-term investments consist entirely of Government of Canada bonds.

5. Loans receivable

	Stated interest rate	1998	1997
	%	(in thousands of dollars)	
Principal amounts due secured by			
—mortgages	5.00–15.00	4,553,756	4,026,951
—chattels	5.00–12.40	579,044	408,451
—notes	5.00–14.00	82,341	156,250
		5,215,141	4,591,652
Accrued interest and fees, net of payments held		71,364	70,090
		5,286,505	4,661,742
Recorded investment in impaired loans secured by			
—mortgages		25,187	18,851
—chattels		5,249	3,840
—notes		1,897	2,571
		32,333	25,262
Less: Allowance for credit losses (Note 6)		(182,700)	(165,400)
		5,136,138	4,521,604
Principal amounts (excluding impaired loans) due within			
1 year		1,490,243	1,515,520
1–5 years		3,619,991	2,721,070
Over 5 years		104,907	355,062
		5,215,141	4,591,652

Management estimates that annually, over the next three years, between four and five per cent (1997—three and six per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1998, $2.4 million (1997—$2.3 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. Allowance for credit losses

	1998	1997
	(in thousands of dollars)	
Balance, beginning of the year	165,400	143,700
Write-offs, net of recoveries	(1,448)	(2,286)
Provision for credit losses	18,748	23,986
Balance, end of the year	182,700	165,400
Specific allowance	8,200	7,800
General allowance	174,500	157,600
Balance, end of the year	182,700	165,400

As at March 31, 1998, the total recorded investment in loans receivable against which a specific allowance has been identified was $32.3 million (1997—$25.3 million). The general allowance was established against the remaining $5,287 million (1997—$4,662 million) investment in loans receivable.

7. Real estate acquired in settlement of loans

	1998	1997
	(in thousands of dollars)	
Balance, beginning of the year	139,629	153,468
Acquisitions	2,767	3,913
Disposals	(18,915)	(17,752)
Balance, end of the year	123,481	139,629

Real estate under long-term lease maturing:

within 1 year	482	195
from 1–2 years	74,292	297
from 2–3 years	42,852	85,110
from 3–4 years	2,234	48,327
from 4–5 years	699	1,521
over 5 years		254
	120,559	135,704
Real estate held for sale	2,922	3,925
	123,481	139,629

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases reprice annually.

Future expected lease receipts, using current lease rates, due within:

	(in thousands of dollars)
—1 year	11,972
—1–5 years	10,883
	22,855

8. NISA investments held

	Stated interest rate	1998	1997
	%	(in thousands of dollars)	
Net Income Stabilization Account investments			
Variable rate	4.09	87,169	15,009
Term rate	3.25–6.00	4,568	2,369
		91,737	17,378
Accrued interest		2,017	174
		93,754	17,552

Subject to the terms and conditions of the "Federal/Provincial Agreement establishing the Net Income Stabilization Account (NISA) Program", the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of the NISA program.

In the fourth quarter of fiscal 1998, the Corporation announced its intention to withdraw as a participating financial institution under the NISA program. The Minister of Agriculture and Agri-Food granted approval for this withdrawal on March 31, 1998. As of April 1, 1998, the Corporation is no longer accepting deposits and it is anticipated that the transfer of the NISA investments to other financial institutions will be completed by March 31, 1999.

Certain costs are expected to be incurred as a direct result of the plan to withdraw. The Corporation has included $0.9 million as an estimate of these costs in current year administration expenses.

9. Short-term notes

	Effective interest rate	1998	1997
	%	(in thousands of dollars)	
Short-term notes payable within one year	4.00–4.76	938,387	742,384
Accrued interest		7,271	5,283
		945,658	747,667

10. Other liabilities and deferred fees

	1998	1997
	(in thousands of dollars)	
Other liabilities and deferred fees consist of		
Agri-Land investment fund	2,707	3,731
Downpayments on real estate sales	492	626
Provision for employee termination benefits	4,933	5,500
Obligation under capital lease (Note 14)	744	
Net currency swap payable	17,456	624
Deferred loan fees	8,748	7,792
	35,080	18,273

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 3.00% (1997—3.25%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

11. Loans payable

	Stated interest rate	1998	1997
	%	(in thousands of dollars)	
Loans from Canada, secured by notes	6.29–10.21	1,477,048	1,981,011
Loans from capital markets, secured by notes payable in			
Canadian dollars	3.00–9.00	2,162,109	1,458,639
U.S. dollars ($100,000,000)	5.21	141,920	103,773
New Zealand dollars ($100,000,000)	8.00	77,689	95,781
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to			
the Hong Kong Exchange index		12,000	12,000
the Euro Top 100 index		56,000	37,000
the S&P 500 Composite Stock Price index		38,000	
		3,964,766	3,688,204
Accrued interest		97,910	65,673
		4,062,676	3,753,877

Loans with equity-linked interest payments do not provide periodic interest payments but, upon settlement, provide the purchaser with a single payment based on changes in the underlying equity index. The Corporation has entered into swap agreements which offset all equity-based interest payments in exchange for periodic payments calculated at an agreed interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

	1998	1997
	(in thousands of dollars)	
Amounts due		
within 1 year	1,123,484	765,627
from 1–2 years	708,567	760,630
from 2–3 years	785,737	627,694
from 3–4 years	367,813	527,743
from 4–5 years	578,279	384,813
over 5 years	400,886	621,697
	3,964,766	3,688,204
Accrued interest	97,910	65,673
	4,062,676	3,753,877

Included in loans payable are $494.0 million (1997—$194.0 million) of loans extendable beyond the above due dates at the Corporation's option.

The Corporation's borrowings (short-term notes and loans payable) are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

12. Capital

Effective March 31, 1998, approval was obtained from the Governor in Council to eliminate the accumulated deficit of $660.6 million through a reallocation of contributed capital. The details of the resulting capital figure are as follows:

	1998	1997
	(in thousands of dollars)	
Balance, beginning of the year	1,118,333	1,118,333
Additional capital contributions	50,000	
Reallocation of contributed capital to eliminate deficit	(660,608)	
Balance, end of the year	507,725	1,118,333

The change in retained earnings, as a result of this reallocation, is presented in the Statement of Operations and Retained Earnings/(Deficit).

13. Income taxes

(a) Timing differences of approximately $35.0 million are available to the Corporation as at March 31, 1998 (1997—$166.0 million). These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $492.0 million (1997—$392.0 million) and expires on the dates indicated:

	(in thousands of dollars)
March 31, 1999	179,000
2001	143,000
2003	70,000
2005	100,000
	492,000

(b) Income taxes payable by the Corporation represent capital taxes under Part VI and I.3 of the *Income Tax Act*. Part VI tax – a tax on the capital of financial institutions – is applicable to financial institutions with capital in excess of $200 million and can be reduced by Part I tax or surtaxes payable. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and may be reduced by current or future Part I surtaxes payable.

14. Commitments and contingent liabilities

(a) Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises and automobiles and on the capital lease for computer hardware, with initial non-cancellable lease terms in excess of one year, are due as follows:

	Capital leases	Operating leases
	(in thousands of dollars)	
within 1 year	245	6,199
from 1–2 years	245	5,722
from 2–3 years	245	5,000
from 3–4 years	120	3,657
from 4–5 years		1,739
over 5 years		2,453
Total future minimum lease payments	855	24,770
Less: amount representing executory costs and imputed interest at 5.00%	111	
Balance of obligation under capital lease	744	
Less: current portion	200	
Long-term obligation under capital lease	544	

(b) Other commitments and contingent liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 1998, the Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $0.7 million (1997—$0.7 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its clients.

As at March 31, 1998, loans to farmers and agribusiness approved but undisbursed amounted to $123.0 million (1997—$172.5 million). These loans were approved at an average interest rate of 7.48% (1997—7.41%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 31, 1998.

15. Derivative financial instruments

The Corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign dollar borrowings. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce risk arising from loan rate guarantees. Interest rate options are sometimes sold as part of funding transactions and are intended to reduce the Corporation's borrowing costs.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to derivative credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is "high" (Aa3 from Moody's or AA- from S&P or better). Additionally, International Swaps and Derivative Association (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 1998, was $596.0 million (1997—$435.3 million) and the largest cumulative replacement cost of contracts with any institution as at March 31, 1998, was $3.2 million (1997—$1.6 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 1998, were as follows:

1998—Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
			(in thousands of dollars)			
Currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed		5,000		5,000	(110)
CDN fixed	USD float		2,250		2,250	(21)
USD fixed	CDN fixed	137,750			137,750	2,963
NZD fixed	CDN fixed		95,000		95,000	(15,521)
Interest swaps						
Receive	*Pay*					
Floating	Fixed	100,000	55,000		155,000	(808)
Fixed	Floating	240,000	402,000	857	642,857	6,699
Fixed	Fixed	10,000	70,000		80,000	1,040
Equity-indexed	Floating		12,000	56,000	68,000	(3,918)
Equity-indexed	Fixed		38,000		38,000	(2,538)
Purchased options						
Interest rate options		245,000	10,000		255,000	351
Sold options						
Interest rate options		169,000			169,000	(9,653)
Total		901,750	689,250	56,857	1,647,857	(21,516)
1997— Remaining term to maturity						
Currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed		5,000		5,000	(69)
CDN fixed	USD float			2,250	2,250	(69)
USD fixed	CDN fixed		103,050		103,050	(3,603)
NZD fixed	CDN fixed		95,000		95,000	2,139
Interest swaps						
Receive	*Pay*					
Floating	Fixed		70,000		70,000	(2,019)
Fixed	Floating	55,000	465,000	10,000	530,000	2,367
Equity-indexed	Floating		12,000	37,000	49,000	(2,415)
Purchased options						
Interest rate options		470,000	10,000		480,000	1,588
Sold options						
Interest rate options			69,000		69,000	(1,814)
Total		525,000	829,050	49,250	1,403,300	(3,895)

Included in derivative financial instruments are $494.0 million (1997 — $264.0 million) of interest rate swap and option contracts extendable beyond the above due dates.

16. Interest rate risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating rate financial instruments and on the fair value of fixed rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's financial instruments by the earlier of their contractual repricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

The calculated yield for loans payable in foreign currencies is disclosed net of currency and interest rate swaps.

1998—Remaining term to repricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	No fixed term	Total carrying value
			(in thousands of dollars)		
Short-term investments	217,872				217,872
Average yield	4.65%				4.65%
Long-term investments	50,486	81,426	17,701		149,613
Average yield	5.02%	4.97%	6.06%		5.10%
Loans receivable [1]					
Fixed rate	1,420,864	3,270,383	99,236		4,790,483
Average yield	7.64%	8.19%	8.55%		8.04%
Floating rate	89,770	399,145	7,107		496,022
Average yield	7.45%	7.56%	7.66%		7.54%
NISA investments [2]					
Fixed rate	780	3,884			4,664
Average yield	3.43%	4.59%			4.39%
Floating rate				89,090	89,090
Average yield				4.09%	4.09%
Short-term notes	945,658				945,658
Average yield	4.43%				4.43%
Loans payable	1,151,699	2,621,835	289,142		4,062,676
Average yield	5.90%	6.72%	7.58%		6.55%
1997—Remaining term to repricing or maturity date					
Short-term investments	225,451				225,451
Average yield	3.74%				3.74%
Long-term investments	42,740	14,999	21,488		79,227
Average yield	6.76%	6.95%	6.58%		6.76%
Loans receivable [1]					
Fixed rate	1,518,579	2,762,038	360,445		4,641,062
Average yield	7.97%	8.56%	9.49%		8.44%
Floating rate	20,075	567	38		20,680
Average yield	5.30%	5.65%	5.73%		5.31%
NISA investments [2]					
Fixed rate	398	2,005			2,403
Average yield	3.29%	4.73%			4.49%
Floating rate				15,149	15,149
Average yield				4.00%	4.00%
Short-term notes	747,667				747,667
Average yield	3.13%				3.13%
Loans payable	779,961	2,587,151	386,765		3,753,877
Average yield	6.96%	6.73%	7.31%		6.84%

Note: [1] Loans receivable excludes impaired loans.

[2] Although certain of these contributions have fixed-interest terms, the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of NISA program.

17. Fair values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

	1998		1997	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(in thousands of dollars)			
ASSETS				
Cash and short-term investments	237,605	237,605	241,014	241,014
Accounts receivable and other accrued assets	44,158	44,158	28,928	28,928
Long-term investments	149,613	150,420	79,227	80,279
Loans receivable	5,136,138	5,163,582	4,521,604	4,600,266
LIABILITIES				
NISA investments held	93,754	93,754	17,552	17,552
Accounts payable and accrued liabilities	19,748	19,748	27,373	27,373
Short-term notes	945,658	944,851	747,667	746,669
Loans payable	4,062,676	4,210,188	3,753,877	3,920,478

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and short-term investments, accounts receivable and other accrued assets, and accounts payable and accrued liabilities.

Fair value for long-term investments is determined by reference to quoted market prices.

The estimated fair value of NISA investments held is equal to the amount payable upon withdrawal.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

Estimated fair value for short-term notes and loans payable is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates for loans with similar credit risks. The allowance for credit losses is valued at its balance sheet carrying value.

Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 15.

NOTES TO FINANCIAL STATEMENTS—*Concluded*

18. Government programs

Commodity-Based Loans

Loans receivable as at March 31, 1998, includes $18.3 million (1997—$100.0 million) of loans under the Commodity-Based Loans (CBL) program. In 1998, the Corporation received $6.4 million (1997—$21.5 million) from Agriculture and Agri-Food Canada as compensation for the early retirement of CBL loans and concessions made under the program. Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

Farm Debt Review Act

During the year, the Minister of Agriculture and Agri-Food was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has provided $278.9 million in concessions and billed $278.9 million to the Government of Canada, of which $0.7 million was billed in the current year.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31, 1994.

19. Comparative figures

Certain 1997 comparative figures have been reclassified to conform with the presentation adopted in 1998.

FRESHWATER FISH MARKETING CORPORATION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED APRIL 31, 1998
WERE NOT AVAILABLE AT DATE OF PRINTING

GREAT LAKE PILOTAGE AUTHORITY, LTD.

MANAGEMENT REPORT

The Great Lakes Pilotage Authority, Ltd. management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable and accurate estimates in accordance with generally accepted accounting principles applied on a consistent basis and as appropriate in the circumstances. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

The Authority's policy is to maintain systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the company assets are adequately accounted for and safeguarded. The Board of Directors which is also the Audit Committee is comprised of Directors who are not employees of the Authority except for the two pilot Board members. The Directors oversee the company's systems of internal accounting and administration control.

The external auditor, the Auditor General of Canada, is appointed under the *Pilotage Act* as the Auditor and has audited the financial statements according to generally accepted auditing standards. His report outlines the nature of the audit and expresses his opinion on the financial statements of the company.

R. G. Armstrong
Chairman & Chief Executive Officer

R. F. Lemire
Secretary/Treasurer

Cornwall, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of Great Lakes Pilotage Authority, Ltd. as at December 31, 1997 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Authority.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
January 30, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997

ASSETS	1997	1996
	$	$
Current		
Cash and short-term deposits (Note 3)	6,287,763	5,378,459
Accounts receivable (Note 4)	2,404,571	2,601,714
	8,692,334	7,980,173
Long-term		
Segregated investments (Note 3)	2,400,844	2,450,842
Capital assets (Note 5)	170,141	58,097
	11,263,319	10,489,112

LIABILITIES	1997	1996
	$	$
Current		
Accrued salaries and benefits	3,356,760	3,727,838
Other accounts payable and accrued charges	303,735	229,116
Accrued employee termination benefits	111,173	236,366
	3,771,668	4,193,320
Long-term		
Accrued employee termination benefits	2,264,085	2,278,244
	6,035,753	6,471,564
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized - 50 shares		
Issued and fully paid - 15 shares	1,500	1,500
Contributed capital	82,074	82,074
Retained earnings	5,143,992	3,933,974
	5,227,566	4,017,548
	11,263,319	10,489,112

Commitments (Note 6).

Approved by the Board:

R. G. ARMSTRONG
Director

FRANCIS C. NICOL
Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Revenues		
Pilotage charges	12,669,576	12,329,885
Interest and other income	301,208	329,397
Life insurance experience gain (loss)	76,162	(75,000)
Dispatching and pilot boat income	72,864	75,102
	13,119,810	12,659,384
Expenses		
Pilots' salaries and benefits	8,670,334	8,681,799
Transportation and travel	978,506	946,183
Operation staff salaries and benefits	612,696	591,695
Pilot boat services (Note 7)	407,453	382,229
Administration staff salaries and benefits	354,046	331,224
Employee termination benefits	254,317	229,112
Professional and special services	151,239	132,797
Pilot training costs	81,691	16,430
Utilities, materials and supplies	77,873	86,133
Communications	77,367	70,851
Rentals	59,556	49,460
Amortization	56,643	25,984
Purchased dispatching services	50,426	43,087
Retired employee benefits	36,647	35,295
Retiring incentives	22,500	
Repairs and maintenance	18,498	21,369
	11,909,792	11,643,648
Net profit for the year	1,210,018	1,015,736
Retained earnings at beginning of the year	3,933,974	2,918,238
Retained earnings at end of the year	5,143,992	3,933,974

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Cash provided by (used in)		
Operating activities		
Net profit for the year	1,210,018	1,015,736
Items not requiring cash		
Employee termination benefits accrual	254,317	229,112
Amortization	56,643	25,984
Net change in working capital components other than cash and short-term deposits	(99,316)	809,957
Employee termination benefits payments	(393,669)	(207,923)
	1,027,993	1,872,866
Investing activities		
Funding of termination benefits (Note 3)	49,998	306,649
Increase in capital assets	(168,687)	(12,328)
	(118,689)	294,321
Increase in cash	909,304	2,167,187
Cash and short-term deposits, beginning of year	5,378,459	3,211,272
Cash and short-term deposits, end of year	6,287,763	5,378,459

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and is continued under the *Canada Business Corporations Act*. Pursuant to the *Financial Administration Act*, the Authority is a Crown corporation listed in Schedule III Part I thereto. The Authority is a subsidiary of the St. Lawrence Seaway Authority but is deemed to be a parent corporation within the meaning of the *Financial Administration Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that the pilotage tariffs shall be fair, reasonable and sufficient and, together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

2. Significant accounting policies

Short-term deposits

Short-term deposits are recorded at cost.

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and equipment	5 to 10 years
Software and computer equipment	5 years

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees. The current liability reflects the accrued termination benefits of only those employees who have indicated their intention to terminate their employment within the coming year.

Employee life insurance plan

The Authority provides a life insurance plan for its employees. Surpluses and deficits from the plan are included in the Statement of Operations in the year in which they are determined.

Retired employee benefits

The Authority contributes toward medical benefits and life insurance for those retired employees who elect for such coverage. The expense is recorded in the year in which it is incurred.

3. Short-term deposits and segregated investments

The Authority invests in short-term deposits, Treasury bills, and provincial and federal bonds. As at December 31, 1997, these investments yield between 3.11% and 5.83% (2.50% and 5.83% in 1996). The term of maturity of these varies between 1998 and 2000 and the fair market value of all these investments as at December 31, 1997 approximates the net book value.

The Authority sets aside certain of those investments, in order to provide for the funding of future employee termination benefits. Those investments are presented as segregated investments:

	1997	1996
	$	$
Bonds that yield between 4% and 5.50% and mature in 1999 and 2000 (1996: yield between 4% and 5.83%, maturity date 1998 and 1999)	2,400,844	2,450,842

4. Accounts receivable

These amounts arise from pilotage services rendered in the normal course of business. They are collectible within a month and are non-interest bearing. The fair value approximates the book value.

5. Capital assets

	1997			1996		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	$	$	$	$	$	$
Buildings	63,642	63,641	1	63,642	63,641	1
Furniture and equipment	219,735	204,006	15,729	207,348	179,246	28,102
Software and computer equipment	197,415	43,004	154,411	41,115	11,121	29,994
	480,792	310,651	170,141	312,105	254,008	58,097

6. Commitments

The Authority has a lease agreement with the St. Lawrence Seaway Authority for the rental of office space. Future minimum rental payments are:

	$
1998	49,287
1999	4,298
	53,585

In addition, the Authority has contract commitments of approximately $390,000 for the pilot boat services for the next two years. Tenders have also been requested for some of the land transportation services for the next two years. Expenditures for the services being tendered were approximately $250,000 in 1997.

7. Dispatching and pilot boat services to U.S. District No. 1 pilots

The Authority provides without charge all dispatching services and pilot boat services in Port Weller to the U.S. District No. 1 pilots and the U.S. Pilots' Association provides without charge pilot boat services for the Authority at Cape Vincent, New York.

8. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

9. Comparative figures

Some of the 1996 figures were reclassified to conform to the presentation adopted in 1997.

HALIFAX PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the balance sheet of Halifax Port Corporation as at December 31, 1997, and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997, and the results of operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act*, and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

Halifax, Canada
January 23, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997

ASSETS	1997	1996
	$	$
Current		
Cash	347,652	112,052
Investment (Note 3)	8,575,434	11,595,477
Accounts receivable	3,702,636	3,365,886
Grants in lieu of municipal taxes	77,850	96,645
Materials and supplies	40,594	49,983
	12,744,166	15,220,043
Accounts receivable	293,935	132,392
Property and equipment (Note 4)	63,229,910	59,342,982
	76,268,011	74,695,417

LIABILITIES	1997	1996
	$	$
Current		
Accounts payable and accrued liabilities	4,296,666	5,128,615
Deferred revenues	588,445	600,744
	4,885,111	5,729,359
Accrued employee benefits	470,204	723,888
	5,355,315	6,453,247
EQUITY		
Contributed capital	50,856,865	50,856,865
Surplus	20,055,831	17,385,305
	70,912,696	68,242,170
	76,268,011	74,695,417

Commitments (Note 5).
Contingent liability (Note 6).
See accompanying notes to financial statements.

On behalf of the Board:

MERVYN C. RUSSELL
Chairman

DAVID F. BELLEFONTAINE
President and Chief Executive Officer

STATEMENT OF EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Revenue from operations	14,974,378	13,151,952
Operating and administrative expenses	8,475,561	7,453,770
Depreciation	2,595,995	2,569,233
Grants in lieu of municipal taxes	893,300	926,051
	11,964,856	10,949,054
Earnings from operations	3,009,522	2,202,898
Investment income	260,008	519,379
(Loss) gain on disposal of fixed assets	(147,721)	336,130
	112,287	855,509
Net earnings	3,121,809	3,058,407
Surplus, beginning of year	17,385,305	14,505,475
Net earnings	3,121,809	3,058,407
Dividends	(451,283)	(178,577)
Surplus, end of year	20,055,831	17,385,305

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Cash derived from (applied to)		
Operating		
Net earnings	3,121,809	3,058,407
Depreciation	2,595,995	2,569,233
Other	(105,963)	(279,020)
	5,611,841	5,348,620
Change in non-cash operating working capital	34,801	204,334
	5,646,642	5,552,954
Financing		
(Increase) decrease in accounts receivable	(161,543)	31,818
(Decrease) increase in construction payable	(1,187,615)	1,557,083
Dividends paid	(451,283)	(178,577)
Capital grants	1,509,490	
	(290,951)	1,410,324
Investing		
Additions to property and equipment	(8,143,378)	(5,355,668)
Proceeds on disposal of assets	3,244	392,274
	(8,140,134)	(4,963,394)
Net (decrease) increase in cash and short-term investments	(2,784,443)	1,999,884
Cash and short-term investments, beginning of year	11,707,529	9,707,645
Cash and short-term investments, end of year	8,923,086	11,707,529

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. In accordance with the *Canada Ports Corporation Act*, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

   In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation - Port of Halifax to Halifax Port Corporation.

2. Summary of significant accounting policies

   Investments

   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   Fixed assets

   Fixed assets are recorded at cost, except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants, including forgivable loans, towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

   Pension costs

   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   Grants in lieu of municipal taxes

   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   Employee benefits

   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

	1997		1996	
	Amortized cost	Face value	Amortized cost	Face value
	$	$	$	$
Short-term	8,575,434	8,634,000	11,595,477	11,682,000

4. Property and equipment

	Depreciation rates	Cost	Accumulated depreciation	1997 Net book value	1996 Net book value
	%	$	$	$	$
Land		24,827,121		24,827,121	24,585,676
Dredging	2.5–6.7	3,930,091	2,720,656	1,209,435	1,269,322
Berthing structures	2.5–10	35,385,194	23,214,548	12,170,646	12,732,792
Buildings	2.5–10	23,584,039	13,130,156	10,453,883	7,174,614
Utilities	3.3–10	8,940,196	4,205,291	4,734,905	4,507,426
Roads and surfaces	2.5–10	12,570,966	7,339,148	5,231,818	2,553,995
Machinery and equipment	5–100	10,727,878	8,313,870	2,414,008	2,544,900
Office furniture and equipment	20	1,662,158	1,469,185	192,973	227,021
Projects under construction		1,995,121		1,995,121	3,747,236
		123,622,764	60,392,854	63,229,910	59,342,982

During the year, the Corporation recorded capital grants of $1,509,490 as a reduction in its cost of property and equipment.

5. Commitments

In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation is required to pay a dividend, in respect of the 1997 fiscal year, based on a method of calculation using net earnings. This dividend, payable before March 31, 1998 amounts to approximately $590,000 for 1997 and will be applied against the surplus.

6. Contingent liability

During the year, the Corporation received a forgivable loan in the amount of $1,000,000. The loan is forgivable at $100,000 per year to 2003, with the remaining $300,000 being forgivable in 2004. In order for the loan to be forgiven, certain conditions regarding operations and capital investment by the Corporation must be met, as specified by the grantor.

7. Marine policy review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act*.

At this time, the impact upon the Corporation is not known.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements presented in this annual report are the responsibility of management and have been reviewed and approved by the Board of Governors of the Centre. The financial statements, which include amounts based on management's best estimates as determined through experience and judgements, have been properly prepared within reasonable limits of materiality and are in accordance with generally accepted accounting principles. Management also assumes responsibility for all other information in the annual report, which is consistent, where applicable, with that contained in the financial statements.

Management maintains financial systems and practices to provide reasonable assurance as to the reliability of financial information and to ensure that assets are safeguarded and the operations are carried out effectively and in accordance with the *International Development Research Centre Act* and bylaws of the Centre. The Centre has an Internal Audit department whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Governors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board benefits from the assistance of its Finance and Audit Committee in overseeing and discharging its financial management responsibility, which includes the review and approval of the financial statements. The Committee, which is made up of governors meets with management, the internal auditors, and the external auditors on a regular basis.

The Auditor General of Canada conducts an independent examination in accordance with generally accepted auditing standards. His audit includes appropriate tests and procedures to enable him to express an opinion on the financial statements. The external auditors have full and free access to the Finance and Audit Committee of the Board.

Maureen O'Neil
President

Raymond J. Audet
Vice-President, Resources
and Chief Financial Officer

June 24, 1998

AUDITOR'S REPORT

TO THE INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
AND THE MINISTER OF FOREIGN AFFAIRS

I have audited the balance sheet of the International Development Research Centre as at March 31, 1998 and the statements of operations, changes in equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 27, 1998

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997
Current		
Cash and short-term investments (Note 3)		
Unrestricted	13,162	13,229
Restricted	20,575	20,153
Accounts receivable (Note 4)	4,989	14,535
Prepaid expenses	5,035	1,377
	43,761	49,294
Long-term investments (Note 5)	7,079	
Capital assets (Note 6)	4,554	3,631
Recoverable deposits	153	161
Endowment funds (Note 7)	348	202
	55,895	53,288

LIABILITIES	1998	1997
Current		
Accounts payable and accrued liabilities (Notes 4 and 8)	6,925	7,271
Restructuring liability (Note 9)	562	1,550
Deferred revenue (Note 10)	24,417	24,356
	31,904	33,177
Deferred revenue long-term (Note 10)	6,394	7,774
Accrued employee termination benefits	2,808	2,575
Deferred rent—head office	662	388
Endowment funds (Note 7)	348	202
	42,116	44,116
EQUITY	13,779	9,172
	55,895	53,288

The accompanying notes form an integral part of the financial statements.

Approved on behalf of the Board:

MAUREEN O'NEIL
President

RAYMOND J. AUDET
Vice President, Resources, and Chief Financial Officer

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Revenues		
Parliamentary appropriation (grant)	88,111	96,100
Supplementary Parliamentary appropriation (grant) (Note 11)	1,800	1,427
Funding for resource-expansion activities (Note 12)	29,487	20,512
Investment income	1,832	2,046
Other income	1,048	1,030
	122,278	121,115
Expenses		
Research activities and related expenses		
Development-research activities	56,381	63,174
Resource-expansion activities (Note 12)	29,487	20,512
Technical support	9,063	9,983
Regional offices management	4,816	6,026
Information dissemination and library	4,569	4,693
Head office management	3,623	3,912
	107,939	108,300
Administration	11,188	12,400
Overhead recovered on resource-expansion activities (Note 12)	(1,456)	(1,667)
	117,671	119,033
Excess of revenues over expenses	4,607	2,082

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	Invested in capital assets	Un-restricted	Total 1998	Total 1997
Balance, beginning of the year	3,631	5,541	9,172	7,090
Excess of revenues over expenses		4,607	4,607	2,082
Net investment in capital assets	923	(923)		
Balance, end of year	4,554	9,225	13,779	9,172

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Cash flow from operating activities		
Excess of revenues over expenses	4,607	2,082
Items not affecting cash		
Amortization of capital assets	1,267	2,544
Gain on disposal of capital assets	(118)	(27)
Employee termination benefits	489	341
Amortization of deferred rent	274	(6)
	6,519	4,934
Net change in working capital other than cash and short-term investments	4,367	(2,305)
Changes in deferred revenue long-term	(1,380)	(4,258)
Net cash generated through (used in) operating activities	9,506	(1,629)
Cash flow from investing activities		
Additions to capital assets net of proceeds on disposal of equipment	(2,072)	(1,720)
Purchase of long-term investments	(7,079)	
Net cash used in investing activities	(9,151)	(1,720)
Net increase (decrease) in cash	355	(3,349)
Cash and short-term investments, beginning of the year	33,382	36,731
Cash and short-term investments, end of the year	33,737	33,382

The accompanying notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
(all values are in thousands of dollars unless otherwise stated)

1. Authority and objective

The International Development Research Centre (the Centre), a corporation without share capital, was established in 1970 by the Parliament of Canada through the *International Development Research Centre Act*. The Centre is funded mainly through an annual appropriation (grant) received from the Parliament of Canada. For purposes of the *Income Tax Act* the Centre is deemed to be a registered charitable organization.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

2. Significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following significant accounting policies.

Recognition of revenue

The annual Parliamentary appropriation (grant) is recorded as revenue during the fiscal year for which it is approved. Parliamentary appropriations for specific projects and funds received or receivable in respect of resource expansion activities are deferred and recognized as revenue when the related project expenses are incurred. All other revenues are recorded on the accrual basis of accounting.

Amortization

Capital assets are recorded at cost and amortized over their estimated useful lives on a straight-line basis. The estimated useful life of each capital asset class is as follows:

Computer equipment	3 years
Software application systems	3 or 5 years
Office furniture and equipment	5 years
Vehicles	3 years
Telephone system	5 years
Leasehold improvements	Remaining term of lease

Investments

Investments are recorded at the lower of cost and market value.

Endowment funds

Endowment funds include amounts received by way of bequest, gift or donation and are generally specific as to purpose. Expenditures relating to these funds are charged against the relevant portion of the endowment in the year they are incurred.

Foreign-currency translation

Foreign-currency transactions are translated into Canadian dollars either by the use of an average exchange rate that closely approximates the rate in effect at the transaction date or the actual rate in effect at the transaction date. Monetary assets and liabilities are adjusted to reflect the rate of exchange in effect at year-end. Exchange gains and losses are included in operations for the current year.

Accrued employee termination benefits

Employees are entitled to specified termination benefits, calculated at salary levels in effect at the time of separation as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees.

Deferred rent

Any rent-free period or other incentives associated with long-term leases are deferred and amortized over the term of the lease on a straight-line basis.

Pension costs

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from the employees and the Centre. These contributions represent the total pension obligations of the Centre and are recognized in the accounts on a current basis. The Centre is not required under current legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Cash and short-term investments

	1998	1997
Cash	2,193	(3,516)
Short-term investments		
Canadian chartered banks	17,515	20,844
Commercial companies	13,889	13,897
Foreign-owned banks	140	2,157
	33,737	33,382

The Centre is authorized to invest in interest-bearing securities such as the above noted entities. These funds are invested in short-term money market instruments which are rated R-1 or better by a recognized bond-rating agency. The investment vehicles consist primarily of banker's acceptances, term deposits and short-term notes.

As at March 31, 1998 the average yield of the portfolio was 4.83% (1997—3.12%) and the average term to maturity was 76 days (1997—82 days). The fair market value of the investment portfolio as at March 31, 1998 approximates the net book value.

Of the total cash and short-term investments, $20,575 (1997—$20,153) is restricted for specific research activities as follows:

	1998	1997
Resources expansion activities	14,440	8,121
Health support—Africa	6,135	12,032
	20,575	20,153

4. Accounts receivable and payable

Accounts receivable and accounts payable are incurred in the normal course of business. All are due on demand and non-interest bearing. The carrying amounts of each approximate fair value because of their short maturity. A significant portion (21.6%) of accounts receivable is due from the Canadian International Development Agency (CIDA) and does not present a significant credit risk. Of the total accounts receivable, $3,417 (1997—$13,585) is restricted for resource-expansion activities.

5. Long-term investments

These funds are invested in bond market instruments. The investment instruments consist of Government of Canada bonds.

As at March 31, 1998, the average yield of the portfolio was 5.63% and the average term to maturity was 4.6 years. The fair market value of the investment portfolio as at March 31, 1998 is $7,279.

Of the total long-term investments, $4,096 is restricted for "health support—Africa" research activities.

6. Capital assets

	Cost		Accumulated amortization		Net book value	
	1998	1997	1998	1997	1998	1997
Computer equipment	6,904	6,968	4,738	4,793	2,166	2,175
Leasehold improvements	1,710	1,793	854	908	856	885
Software application systems	555				555	
Office furniture and equipment	1,604	1,475	1,226	1,235	378	240
Telephone system	1,273	995	900	849	373	146
Vehicles	826	866	600	681	226	185
	12,872	12,097	8,318	8,466	4,554	3,631

During the year, the Centre began capitalizing the costs for its software application systems. The amortization of these costs will commence in the year the systems become operational. Amortization expense for the year is $1,267 (1997—$2,544).

7. Endowment funds

In 1987, the estate of the late John Bene established a fund to provide a postgraduate fellowship in the field of social forestry. The Centre administers this fund as well as other endowment funds such as the Governor's Fund and the AIDS Fund.

	1998	1997
Balance at the beginning of the year	202	208
New contributions	142	
Interest income	10	8
Expenses	(6)	(14)
Balance at the end of the year	348	202
John Bene	287	159
Other	61	43
Total endowment funds	348	202

8. Accounts payable and accrued liabilities

	1998	1997
Accrued liabilities—projects	2,122	2,016
Trade payables	1,996	2,416
Accrued annual and other leave benefits	1,882	1,814
Other	925	1,025
	6,925	7,271

9. Restructuring liability

During the year ended March 31, 1996, the Board of Governors approved a restructuring of the Centre's programs and operations at its head office and regional offices. The total cost of this restructuring, which included severance packages paid to employees under the special compensation and assistance program and other related costs, was estimated at $5.5 million. As at March 31, 1998, an amount of $0.6 million (1997—$1.5 million) remains outstanding. A total of $0.9 million (1996—$2.5 million) was paid during the year.

10. Deferred revenue

Deferred revenue includes the unspent portion of funds received, or receivable on resource-expansion activities, as well as the portion of the supplementary Parliamentary appropriation (grant) received in March 1994 which has not yet been used as at March 31, 1998. Details of these balances are as follows:

	1998	1997
Current		
Resource-expansion activities	20,579	20,098
Supplementary Parliamentary appropriation (grant)		
Health support—Africa	3,838	4,258
	24,417	24,356
Long-term		
Supplementary Parliamentary appropriation (grant)		
Health support—Africa	6,394	7,774
Total	30,811	32,130

Of the total deferred resource-expansion activities, an amount of $15,285 (1997—$3,517) was received from CIDA and an amount of $1,078 (1997—$12,147) is receivable from this organization at year-end. A further amount of $3,600 (1997—nil) is also recorded as a prepaid expense.

11. Supplementary parliamentary appropriation (grant)

In March 1994, the Centre received a supplementary Parliamentary appropriation (grant) of $27 million. This money was restricted as follows: $15 million to underwrite a health-support package in Africa, and $12 million for the Micronutrient Initiative. While the portion relating to the Micronutrient Initiative was fully spent in 1995-96, the activity pertaining to the health-support package in Africa is still ongoing. For the fiscal year under review, revenue recognized on this activity amounted to $1.8 million (1997—$1.4 million). The remaining unspent portion of $10.2 million (1997—$12 million) is reported as a deferred revenue (see Note 10).

12. Resource-expansion activities

Resource-expansion activities relate specifically to research conducted or managed by the Centre on behalf of other organizations. This research is funded by CIDA, other Government of Canada entities, and other agencies. A breakdown of resource-expansion activities is provided below:

	1998	1997
CIDA	24,399	11,053
Other agencies	4,345	6,112
Other Government of Canada entities	743	3,347
	29,487	20,512

The Centre recovers overhead on resource-expansion activities. This amounted to $1,456 (1997—$1,667) of which $1,000 (1997—$735) was recovered from CIDA.

13. Operating lease commitments

The Centre has entered into various lease arrangements for staff accommodation in various countries and for office premises and equipment in Canada and abroad. The Centre's lease agreement for premises at its head office expires in 2007. The total minimum annual payments under various lease arrangements will be as follows:

1998-99	5,144
1999-00	4,893
2000-01	4,660
2001-02	4,683
2002-03	4,784
2003-07	24,361
Total	48,525

14. Contractual commitments—project grants and project development

The Centre is committed to make payments up to $135.3 million during the next four years subject to funds being provided by Parliament or external partners and subject to compliance by recipients with the terms of project agreements. The Centre has also submitted formal grant offers to prospective recipients totalling $1.7 million and is awaiting acceptance of these offers.

15. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Centre is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Centre enters into transactions with these entities in the normal course of business.

16. Contingency

A claim of approximately $0.8 million relating to a leased property in India remains outstanding at the end of the year. Based on the advice of legal counsel, management is of the opinion that it is not possible to determine the amount of the liability, if any, that may result from settlement of this claim.

The Centre is a defendant in other pending lawsuits. In management's opinion, the outcome of these other actions is not likely to result in any material liabilities.

17. Comparative figures

Certain 1997 comparative amounts have been reclassified to conform to the financial-statement presentation adopted in 1998.

LAURENTIAN PILOTAGE AUTHORITY

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of the Authority is responsible for the performance of the duties delegated to them by its Board of Directors. These include the preparation of the annual report and the production of its content, including the financial statements. The financial statements were prepared in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year, and include estimates based on management's experience and judgement.

Management maintains books and records, financial and management control, information systems and management practices designed in such a manner as to provide reasonable assurance that: reliable and accurate financial information is produced on a timely basis; assets are safeguarded and controlled; transactions are in accordance with Part X of the *Financial Administration Act* and its regulations as well as the *Pilotage Act* and regulations and by-laws of the Authority and any directives given to it; resources are managed economically and efficiently, and that the operations of the corporation are carried out effectively.

The Auditor General of Canada conducts an independent audit of the financial statements of the Authority in accordance with generally accepted auditing standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee composed of three directors whom are not employees of the Authority. The Audit Committee discharges the responsibilities conferred upon it by the Board of Directors, and meets on a regular basis with management and the Auditor General of Canada, who has unrestricted access to the Committee.

Jean-Claude Michaud
Chairman

Yvon Martel
Treasurer

Montreal, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 1997 and the statements of operations, contributed capital, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 9, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997

ASSETS	1997	1996
	$	$
Current		
Accounts receivable	7,410,012	8,099,840
	7,410,012	8,099,840
Capital assets (Note 5)	3,181,500	3,420,120
	10,591,512	11,519,960

LIABILITIES	1997	1996
	$	$
Current		
Bank indebtedness	571,389	3,305,818
Current portion of bank loans (Note 6)	548,497	94,090
Accounts payable	7,208,019	6,743,117
	8,327,905	10,143,025
Long-term		
Provision for employee termination benefits	705,598	724,000
Bank loans (Note 6)	4,015,446	2,276,035
	4,721,044	3,000,035
	13,048,949	13,143,060
Contengencies (Note 7)		
EQUITY OF CANADA		
Contributed capital	2,479,154	2,479,154
Deficit	(4,936,591)	(4,102,254)
	(2,457,437)	(1,623,100)
	10,591,512	11,519,960

Approved by the Authority:

JEAN-CLAUDE MICHAUD
Chairman

PAUL-ANDRE MICHAUD
Member

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Revenues		
Pilotage charges	38,095,969	35,942,272
Interest and other revenues	89,313	76,388
	38,185,282	36,018,660
Expenses		
Pilots' fees, salaries and benefits	31,946,066	31,957,728
Operating costs of pilot boats (Note 6)	4,081,134	4,033,788
Staff salaries and benefits	1,721,381	1,643,994
Professional services and members' allowances	495,217	543,069
Rentals	189,276	186,154
Financing costs	173,363	48,328
Utilities, material and supplies	109,824	108,897
Communications	100,123	103,768
Transportation, travel and hospitality	74,123	63,716
Maintenance	28,210	38,542
Other	100,902	118,206
	39,019,619	38,846,190
Net loss for the year	834,337	2,827,530

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Balance, beginning of the year	2,479,154	1,748,814
Parliamentary appropriation to finance the acquisition of capital assets of the previous year (Note 4)		730,340
Balance, end of the year	2,479,154	2,479,154

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Balance, beginning of the year	4,102,254	1,274,724
Net loss for the year	834,337	2,827,530
Balance, end of the year	4,936,591	4,102,254

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Operating activities		
Net loss for the year	(834,337)	(2,827,530)
Non-cash items		
Amortization	311,183	318,008
Increase (decrease) in the provision for employee termination benefits	(18,402)	44,000
	(541,556)	(2,465,522)
Decrease (increase) in accounts receivable	689,828	(1,034,189)
Increase (decrease) in accounts payable	464,902	(978,239)
	613,174	(4,477,950)
Investing activities		
Additions to capital assets	(72,563)	(517,842)
Financing activities		
Parliamentary appropriations		730,340
Bank loan	2,500,000	629,860
Repayment on bank loans	(306,182)	(29,875)
	2,193,818	1,330,325
Bank indebtedness		
Increase (decrease) in cash for the year	2,734,429	(3,665,467)
Balance, beginning of the year	(3,305,818)	359,649
Balance, end of the year	(571,389)	(3,305,818)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Authority and activities

The Laurentian Pilotage Authority was established in 1972 under the *Pilotage Act*. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Authority is not an agent of the Crown and is exempt from income taxes.

2. Significant accounting policies

The financial statements of the Laurentian Pilotage Authority have been prepared in accordance with generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

Capital assets

Capital assets obtained from Canada when the Authority was established were recorded at the then assigned values. Capital assets purchased subsequently by the Authority are recorded at cost.

Capital assets are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

The estimated useful lives for the major categories of capital assets for the purposes of calculating amortization are as follows:

Buildings	10 years
Pilot boats	10 and 15 years
Furniture and fixtures	10 years
Communications equipment	10 years
Computer equipment	5 years
Boarding facilities	15 and 20 years
Wharf improvements	15 years

Contributed capital

The values assigned to the capital assets obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Authority contribute equally to the cost of the Plan. This contribution represents the total liability of the Authority. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their collective agreements and their conditions of employment. Generally, the benefits equal one week of salary for each year of employment. The cost of these benefits is expensed in the year in which they are earned.

3. Fair values of financial instruments

The transactions related to accounts receivable, bank indebtedness and accounts payable are incurred in the normal course of business. The short-term borrowings from the bank are at a floating rate; the rate is the Canadian prime rate. The carrying amounts of each of these accounts approximate their fair value because of their short term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

On December 31, 1997, the fair value of the bank loans is estimated at $4,653,483 ($2,479,146 on December 31, 1996) while the book value is $4,563,943 ($2,370,125 on December 31, 1996). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.

4. Parliamentary appropriations

According to the new National Marine Policy, the Authority has no longer access to parliamentary appropriations. Therefore the Minister of Finance authorized the Authority to have recourse to bank loans for its financing.

5. Capital assets

	1997			1996		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	$	$	$	$	$	$
Land	9,300		9,300	9,300		9,300
Buildings	57,572	31,612	25,960	57,572	29,814	27,758
Pilots boats	3,758,313	1,673,405	2,084,908	3,757,882	1,477,793	2,280,089
Furniture and fixtures	148,646	112,818	35,828	150,589	107,137	43,452
Communications equipment	149,530	98,711	50,819	161,037	100,724	60,313
Computer equipment	266,418	160,381	106,037	219,255	161,784	57,471
Boarding facilities	303,344	212,291	91,053	303,344	204,003	99,341
Wharf improvements	1,090,318	312,723	777,595	1,090,318	247,922	842,396
	5,783,441	2,601,941	3,181,500	5,749,297	2,329,177	3,420,120

Amortization for the year is $311,183 ($318,008 in 1996)

6. Bank loans

	1997	1996
	$	$
Loan to finance the acquisition of a pilot-boat matures in 2001 and bears interests at a rate of 7.23%. The capital repayments are calculated based on an amortization period of 15 years	2,276,035	2,370,125
Loan to finance the cash deficit of the year 1996 matures in 2002 and bears interests at a rate of 7.10%	2,287,908	
	4,563,943	2,370,125
Less: current portion	548,497	94,090
	4,015,446	2,276,035

As at December 31, the capital repayments of these loans for the following years are as follows:

	$	$
1997		94,090
1998	548,497	101,114
1999	588,874	108,672
2000	632,199	116,771
2001	2,502,716	1,949,478
2002	291,657	
	4,563,943	2,370,125

The interests expenses in the amount of $168,264 ($139,332 in 1996) related to the bank loan to finance the pilot-boat are recorded in the item " Operating costs of pilot-boats ".

7. Contingencies

In connection with its operations, the Authority is the claimant or defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Authority. No provision has been recorded in the accounts in this regard.

8. Commitments

The future minimum payment commitments under an operating lease related to the rental of premises are as follows:

	$
1998	154,506
1999	180,783
2000	186,039
2001	186,039
2002	186,039
2003-2004	216,987
	1,110,393

9. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

MARINE ATLANTIC INC.

MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

The preparation and presentation of the financial statements is the responsibility of Marine Atlantic Inc.'s management. These financial statements have been prepared in accordance with generally accepted accounting principles consistently applied using management's best estimates and judgements that are considered appropriate to the Corporation's circumstances. Management also relies on an actuarial report to record the activities of the pension fund.

Management is responsible for the reliability and integrity of the financial statements including the notes to the statements and other financial information contained in the annual report. In addition, management is also responsible for maintaining books of account, information systems, systems of financial and management control, and a comprehensive internal audit program. These managerial controls and procedures are intended to provide reasonable assurance that accurate financial information is available, that assets are safeguarded and controlled, that resources are managed efficiently, and that transactions are conducted in accordance with relevant legislation and the articles of incorporation and by-laws of the Corporation and its wholly owned subsidiary.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board, in its capacity as the Audit Committee, fulfills this responsibility. The Committee reviews matters related to accounting, auditing, internal control systems, and the financial statements.

The Auditor General of Canada, the independent auditor of the Corporation appointed under the *Financial Administration Act*, has audited the Corporation's financial statements in accordance with generally accepted auditing standards. The independent auditor had full and unrestricted access to the Board of Directors in its capacity as the Audit Committee to discuss his audit and related findings and the adequacy of the system of internal control.

The financial statements and the annual report have been approved by the Board of Directors.

D. J. Weaver, CA
Vice-President, Finance and Administration

Rod Morrison
President and CEO

Moncton, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of Marine Atlantic Inc. as at December 31, 1997 and the statements of earnings, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Marine Atlantic Inc. Acquisition Authorization Act* and the articles of incorporation and by-laws of the Corporation and its wholly-owned subsidiary.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
March 6, 1998

BALANCE SHEET DECEMBER 31, 1997
(with comparative figures for 1996)
(stated in thousands of dollars)

ASSETS	1997	1996
Current assets		
Cash	6,972	748
Accounts receivable, net (Note 3)	4,576	5,579
Receivable from Government of Canada (Note 4)	31,077	4,569
Inventory of fuel and supplies	2,399	5,141
Prepaid expenses	3,590	3,378
	48,614	19,415
Capital assets (Note 5)	217,022	306,660
	265,636	326,075

LIABILITIES AND SHAREHOLDER'S DEFICIENCY	1997	1996
Current liabilities		
Bank indebtedness		381
Accounts payable and accrued liabilities	11,409	13,323
Accrued vacation pay	4,806	8,453
Payable to subsidiary	2,989	5,901
Accrued separation benefits	1,635	3,258
Losses of subsidiary in excess of the cost of the investment (Note 6)	2,334	9,399
Current portion of provision for restructuring (Note 7)	24,619	57,822
	47,792	98,537
Provision for restructuring (Note 7)	21,221	8,477
Deferred capital assistance	217,022	306,660
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 8)	258,530	258,530
Deficit	(278,929)	(346,129)
	(20,399)	(87,599)
Commitments and contingencies (Note 11)		
Subsequent event (Note 13)		
	265,636	326,075

See accompanying notes to financial statements.

On behalf of the Board:

MOYA CAHILL
Director

HEATHER A. STILWELL
Director

STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(stated in thousands of dollars)

	1997	1996
Revenue		
Commercial revenue	58,706	94,115
Provincial ferry service contract (Note 9)	11,579	
Charter revenue	940	4,902
	71,225	99,017
Operating expenses		
Wages and benefits	58,704	90,458
Fuel	16,710	20,732
Materials	10,947	16,539
Contracted services	12,676	15,927
Insurance, rent and utilities	5,174	8,226
Other	4,989	5,513
Charter expenses	2,311	7,293
Separation benefits	61	2,258
Amortization	22,375	31,108
	133,947	198,054
Loss from operations before provision for restructuring and parliamentary appropriations	62,722	99,037
Restructuring		
Write down and loss on disposal of capital assets (Note 5)	69,251	
Provision for restructuring (Note 7)	23,489	67,511
Loss from operations and restructuring before parliamentary appropriations	155,462	166,548
Parliamentary appropriations		
Restructuring	79,861	
Operations	44,110	67,551
Amortization of deferred capital assistance	91,626	31,108
Earnings (loss) from continuing operations	60,135	(67,889)
Gain (loss) from discontinued operation (Note 6)	7,065	(7,408)
Net earnings (loss)	67,200	(75,297)

See accompanying notes to consolidated financial statements.

STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(stated in thousands of dollars)

	1997	1996
Deficit, beginning of year	(346,129)	(270,832)
Net earnings (loss)	67,200	(75,297)
Deficit, end of year	(278,929)	(346,129)

See accompanying notes to consolidated financial statements.

STATEMENT OF CHANGE IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997
(with comparative figures for 1996)
(stated in thousands of dollars)

	1997	1996
Cash provided by (used in)		
Operations		
Earnings (loss) from continuing operations	60,135	(67,889)
Items not involving cash		
Amortization	22,375	31,108
Write down and loss on disposal of capital assets due to restructuring	69,251	
Amortization of deferred capital assistance	(91,626)	(31,108)
Increase (decrease) due to provision for restructuring	(20,459)	66,299
Change in other non-cash operating working capital	(33,071)	(260)
	6,605	(1,850)
Financing		
Capital assistance (Note 4)	593	4,157
Investments		
Expenditures on capital assets	(1,988)	(4,874)
Proceeds on disposal of capital assets	1,395	717
	(593)	(4,157)
Increase (decrease) in cash	6,605	(1,850)
Cash, beginning of year	367	2,217
Cash, end of year	6,972	367
Cash is comprised of the following		
Cash	6,972	748
Bank indebtedness		(381)
	6,972	367

See accompanying notes to consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997
(stated in thousands of dollars)

1. Nature of operations and authority

The *Marine Atlantic Inc. Acquisition Authorization Act* was proclaimed in 1986. In accordance with the Act, the Corporation's articles restrict the business it may carry on to the acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto. Its corporate mission is "to provide quality, safe and efficient marine transportation and hospitality services". Marine Atlantic Inc. is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*.

The Corporation's activities are also governed by agreements negotiated with the Government of Canada subject to parliamentary approval. The agreements provide, among other things, for the Corporation to receive parliamentary appropriations for operations from the Government of Canada to the extent that the cost of providing ferry, coastal, terminal and water services is not recovered from commercial revenues. In addition, the acquisition of capital assets, restructuring costs, and Newfoundland Dockyard Corporation funding requirements are also governed by agreements, subject to parliamentary appropriation. As a result, the Corporation is economically dependent on the Government of Canada for the funds it receives through these arrangements.

The Corporation transferred and closed certain services in 1997, as approved by the Government of Canada as follows:

- The transfer of the Bay of Fundy services to a private sector operator on April 1, 1997.
- The closure of the New Brunswick - Prince Edward Island service on May 31, 1997.
- The transfer of the service known as the Newfoundland and Labrador Coastal service to the Government of Newfoundland and Labrador on April 1, 1997 (see also Note 9).
- A wholly-owned subsidiary, Newfoundland Dockyard Corporation ceased operation in 1996 and the Corporation has entered an agreement to sell this operation to a private operator pending final resolution of outstanding issues.
- Coastal Transport Limited, a wholly-owned subsidiary, was sold to a private operator effective January 1, 1997 (see also Note 10).

The Corporation will continue to operate the Nova Scotia to Newfoundland service as a federal Crown corporation. This service encompasses the year-round ferry service between North Sydney, Nova Scotia and Port aux Basques, Newfoundland and the seasonal summer service from North Sydney, Nova Scotia to Argentia, Newfoundland. This service represented approximately seventy-five percent of total commercial revenues in 1997.

2. Significant accounting policies

(a) Basis of presentation

The financial statements are prepared in accordance with generally accepted accounting principles. During the year the Corporation continued to carry out its formal plan for the sale of the operations of the Newfoundland Dockyard Corporation. Accordingly, the investment in this subsidiary is accounted for at the lower of net realizable value and the carrying value of the investment using the equity method (1996-equity method) (see also Note 6 concerning Newfoundland Dockyard Corporation).

These financial statements include the accounts on a consolidated basis of its wholly-owned subsidiary, Coastal Transport Limited, in 1996 only, as this subsidiary company was sold effective January 1, 1997 (see also Note 10).

(b) Parliamentary appropriations

Parliamentary appropriations fund operating expenses, capital additions, restructuring costs and payments to the subsidiary in excess of commercial revenues and are included in income for the year. Funds related to capital additions are recorded as deferred capital assistance in the year in which the related capital assets are acquired, and are amortized to income on the same basis and over the same periods as the related capital assets are amortized or written off. Any difference remaining represents a receivable from (payable to) the Government of Canada.

(c) Management estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: the net recoverable amount for capital assets (see also Note 5), losses of the subsidiary in excess of the cost of the investment (see also Note 6), provision for restructuring (see also Note 7), future liabilities for workers' compensation benefits (see also Note 11(e)), litigation (see also Note 11) and pensions (see also Note 12).

(d) Fair values

The fair values of financial instruments are determined as follows:

- Current portion of provision for restructuring - using cash flows of estimated future payments without discounting (see also Note 7).
- Provision for restructuring - using discounted cash flows of estimated future payments based on current interest rates (see also Note 7).
- Pensions - the value of the accrued pension benefit is based on an extrapolation of the actuarial valuation at December 31, 1995 using management's best estimate assumptions. Pension plan assets are valued at market as at December 31, 1997 (see also Note 12).

(e) Inventory of fuel and supplies

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

(f) Capital assets and amortization

Capital assets in use are carried at cost less accumulated amortization. Amortization is calculated at rates sufficient to write off capital assets over their estimated useful lives generally on a straight-line basis. The rates for significant classes of capital assets are as follows:

Capital Asset	Rate
Vessels	5%
Terminal properties	2.5%
Equipment	10%, 12.5% and 25%
Leasehold improvements	lesser of 5 years or term of lease

Capital assets held for resale are carried at their estimated net realizable value. Once a capital asset is taken out of service and the estimated net realizable value is less than the recorded net book value, a write down is made with an offsetting charge to deferred capital assistance.

(g) Vessel spare parts

The Corporation maintains spare parts for vessels in service. The cost of spare parts is charged to operations when the spare parts are acquired.

(h) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Commitments and contingencies denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date.

(i) Employee compensation

(i) Pension plans

Current service costs are actuarially determined and charged to operations as they accrue based on services rendered during the year. Adjustments arising from experience gains and losses are amortized over periods from six to fourteen years. The Corporation recognizes a partial pension plan curtailment due to restructuring activities as appropriate. Any net gain on curtailment is offset against restructuring costs.

(ii) Personal injury costs

Certain employees, retired or unable to perform their duties temporarily as a result of work-related injury, receive specified benefits administered and paid by the workers' compensation boards of the four Atlantic provinces. The Corporation recognizes the payments as an expense in the year paid to the workers' compensation boards and therefore no amounts have been recorded in the financial statements for anticipated future costs which may be significant (see also note 11(e) concerning commitments and contingencies related to workers' compensation benefits).

(j) Provision for restructuring

The Corporation recognizes liabilities for termination benefits, related to employees to be terminated as a result of restructuring, when the decision has been approved by the Government of Canada for such restructuring and an estimate can be reasonably calculated of the anticipated costs. The anticipated costs relate to specific agreements that have been reached covering most employees' unions and management's intentions for planned termination benefits for other employees. The nature of the liability includes severance payments, interim payments to bridge employees until pension entitlement and certain long-term health care benefits.

The Corporation recognizes management's best estimate of costs associated with site remediation and clean-up, adjustment of the pension expenses, lay-up of vessels and miscellaneous expenses required to carry out the Corporation's formal plans related to restructuring when the decision has been approved by the Government of Canada and an estimate can be reasonably made (see also Notes 2 (c), 2 (d) and 7).

3. Accounts receivable, net

Accounts receivable, net are comprised of the following:

	1997	1996
Trade receivables, net	2,664	3,206
Insurance receivable, net	1,061	922
Other receivables, net	851	1,451
	4,576	5,579

The Corporation provides services to numerous customers, however five customers represent forty-eight percent of the trade receivables. The insurance receivable is from one broker representing a number of insurers. The other receivables consist of a variety of items not related to the above.

4. Receivable from Government of Canada

As described in note 2 (b), the Corporation receives appropriations from the Government of Canada to fund operations, capital purchases, losses and closure costs of the Newfoundland Dockyard Corporation, and for restructuring. Appropriations received from the Government of Canada were used as follows:

	1997	1996
Receivable from Government of Canada, beginning of year	4,569	1,180
Cash received during the year	(98,511)	(85,692)
Used for		
Operations	44,110	67,551
Restructuring costs	79,861	
Capital	593	4,157
Paid and payable to Newfoundland Dockyard Corporation (see Note 6)	455	17,373
Receivable from Government of Canada, end of year	31,077	4,569

5. Capital assets

	Cost	Accumulated amortization	1997 Net book value	1996 Net book value
Vessels	366,006	203,764	162,242	219,035
Terminal properties	81,564	29,179	52,385	81,841
Equipment	18,436	16,598	1,838	5,185
Leasehold improvements	837	280	557	599
	466,843	249,821	217,022	306,660

Included on the Statement of Earnings is a write down and loss on disposal of capital assets due to restructuring of $69,251 (1996—nil). A write down of $15,759 was made (1996—nil) for the assets held for resale and not used in operations to their estimated net recoverable amount reflecting current and anticipated market conditions. The loss on disposal of $53,492 (1996—nil) relates to assets transferred, sold and demolished as a result of restructuring carried out.

6. Discontinued operations

During the year, the Corporation continued to carry out provisions of its formal plan for the sale of a subsidiary, the Newfoundland Dockyard Corporation. Execution of this plan has resulted in the closure of the operation, the termination of all employees, and planned asset disposal in 1998. Accordingly, the subsidiary is not being consolidated. The investment in the subsidiary is accounted for at the lower of the net realizable value and the carrying value of the investment using the equity method (1996—equity method).

The results of the subsidiary's operations are as follows:

	1997	1996
Revenue	157	3,753
Operating expenses	71	8,990
Income (loss) before government assistance	86	(5,237)
Government operating assistance		5,237
Operating income for the year	86	
Closure costs	(1,541)	(19,544)
Government closure assistance	455	12,136
Loss from discontinued operation before extinguishment of debt	(1,000)	(7,408)
Extinguishment of debt	8,065	
Income (loss) from discontinued operation	7,065	(7,408)
Increase (decrease) in investment in subsidiary	7,065	(7,408)

Newfoundland Dockyard Corporation had nil sales to the parent company (1996—$4).

The amounts of the assets and liabilities of the subsidiary at December 31 which are not consolidated, are summarized as follows:

	1997	1996
Current assets	5	837
Receivable from parent	2,989	5,901
Capital assets	1	1
	2,995	6,739
Less		
Bank indebtedness		1,444
Accounts payable	386	230
Provision for closure costs	3,667	3,000
Separation costs payable	1,276	3,399
Long-term debt		8,065
	5,329	16,138
Losses of subsidiary in excess of the cost of the investment	2,334	9,399

The results of the subsidiary's change in cash position is as follows:

	1997	1996
Cash provided by (used in)		
Operations		
Income (loss) from discontinued operation	7,065	(7,408)
Items not involving cash		
Extinguishment of debt	(8,065)	
Amortization of deferred capital assistance		(6,577)
Provision for write down of assets held for sale		11,578
Change in non-cash operating working capital	(463)	6,894
	(1,463)	4,487
Financing		
Receivable from parent	2,912	(5,570)
	2,912	(5,570)
Investment		
Expenditures on capital assets		(59)
Increase (decrease) in cash from discontinued operation	1,449	(1,142)
Cash position, beginning of year	(1,444)	(302)
Cash position, end of year	5	(1,444)

The subsidiary has recognized a liability based on management's best estimate for employee termination benefits related to closure. The liability for termination benefits of $1,276 (1996—$3,399) is based on management's assertion that the amounts recognized are complete and will not be subject to material changes upon final settlement of an outstanding former employees' union challenge to an arbitration decision on this matter. Depending upon the final outcome of this issue, the actual amount could be materially higher than the estimate recorded by management. These liabilities are calculated using discount factors at current interest rates.

The provision for closure costs pertaining to environmental concerns of $3,000 (1996—$2,000) relates to site remediation and reclamation including the clean up of oil seepage that has occurred on the land occupied by the subsidiary. Management's estimate of these costs is based upon consultants' reports, the requirements of presently enacted laws and regulations, and the professional judgment of management. However, management is not able to precisely determine the extent of future clean-up costs that will arise in this regard.

As a result of the closure of the subsidiary, the liability for outstanding workers' compensation benefits in the provision for closure costs of $667 (1996—$800), which prior to 1996 had been accounted for as an expense in the year paid, is based on management's best estimate. The amount recorded for other costs in the provision for closure costs is nil (1996—$200). Management believes that future payments will not be materially different in the near term. This liability is calculated based on expected discounted cash flows at current interest rates.

Long-term debt consisted of a Province of Newfoundland debenture bearing interest at 16.55% and maturing in 2008. Under the terms of the debenture, payment of non-cumulative annual interest and principal were required to the extent that annual funds were available from operations. As Newfoundland Dockyard Corporation ceased operation, the Province of Newfoundland and Labrador extinguished the $8,065 debt on March 31, 1997.

The results of the subsidiary's operations includes a charge to expenses for total closure costs of $1,541 (1996—$19,544). This consists of nil (1996—$10,454) for employee termination benefits, $1,000 (1996—$2,000) for site remediation and clean-up, nil (1996—$800) for workers' compensation benefits and $541 (1996—$6,290) for other closure costs.

7. Provision for restructuring

Marine Atlantic Inc. transferred the Bay of Fundy and the Newfoundland and Labrador Coastal services on April 1, 1997 and closed the New Brunswick to Prince Edward Island service on May 31, 1997. The Government of Canada, through the Minister of Transport, directed the Corporation to transfer the Bay of Fundy services to a private operator chosen by the Department of Transport, and directed the Corporation to transfer the Newfoundland and Labrador Coastal service to the Province of Newfoundland and Labrador. The closure of the service between New Brunswick and Prince Edward Island was the result of the opening of the Confederation Bridge on June 1, 1997. Funding of costs related to these service divestitures is governed by agreements with the Government of Canada, subject to parliamentary approval (see also Note 2 (b)). The financial statements include the revenues and expenses for the above services for the period operated by Marine Atlantic Inc.

Management's estimate for the liabilities associated with restructuring at December 31, 1997, including current and non-current amounts is:

	1997	1996
Employee termination benefits	50,094	70,853
Site remediation and clean-up, lay-up of surplus vessels and other restructuring costs		1,700
Pension adjustment	(4,254)	(6,254)
Provision for restructuring	45,840	66,299
Less current portion	24,619	57,822
Non-current portion	21,221	8,477

The Corporation's estimate of employee termination benefits is based upon special termination agreements with unionized employees which cover most of the employee groups affected by the transferred and closed services. For other employees a separate termination benefit program is in place. These arrangements were used to estimate a liability in 1996 for planned workforce reduction based on its employee requirements after the restructuring as outlined in the Corporation's formal plans. The Corporation updated this estimate based on actual experience and new data. Termination costs related to the transfer of the Newfoundland and Labrador Coastal service were recognized in 1997 after approval by the Government of Canada. The statement of earnings includes a charge of $23,489 (1996—$67,511) for this as well as the restructuring costs for other services. The estimate could be significantly different if the key assumptions used by management for major determinants of the estimate vary from those planned. The Corporation made significant assumptions in preparing this estimate, including: interest rates for discount factors for the non-current portion of the liability, planned termination dates and the number of terminations.

Site remediation and clean-up activities related mainly to New Brunswick - Prince Edward Island service and have been completed in 1997. The Corporation believes that any future site remediation and clean-up costs related to the Bay of Fundy services and the Newfoundland and Labrador Coastal service are to be borne by the Government of Canada.

The pension adjustment credit for 1997 for $4,254 (1996—$6,254) related to the recognition of a partial pension plan curtailment as a result of terminations in 1997. The Corporation's actuary determined this estimate based on management's assumptions.

The net book value of capital assets related to the Newfoundland and Labrador Coastal service is nil (1996—$25,160) and for the Bay of Fundy and New Brunswick to Prince Edward Island services is $2,000 (1996 — $34,715). Capital assets related to the Newfoundland and Labrador Coastal service were transferred to the Government of Canada in December 1997. Commercial revenues and operating expenses were $1,418 (1996—$19,797) and $5,381 (1996—$24,386) for the Bay of Fundy services, $7,472 (1996—$23,465) and $17,247 (1996—$37,046) for the New Brunswick - Prince Edward Island service, and $6 (1996—$5,561) and $961 (1996—$16,176) for the Newfoundland and Labrador Coastal service, respectively.

8. Share capital

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 1997, 517,061 (1996—517,061) shares at $.50 (1996—$.50) per share have been issued and fully paid.

9. Provincial ferry service contract

On March 28, 1997, the Governments of Canada and Newfoundland and Labrador (the Province) signed an agreement transferring all responsibility for the operation of marine freight and passenger services on and to the coast of Newfoundland and Labrador to the Province effective April 1, 1997. An agreement was executed between the Province and the Corporation for the Corporation to operate the service on behalf of the Province for the nine month period April 1 to December 31, 1997. This agreement outlined the required provision of services, and specified the arrangements for a cost recovery contract. Payments from the Province were made in agreed upon monthly installments with an adjustment at December 31, 1997 based on actual costs calculated in accordance with the agreement. Revenues for the nine month period were $5,623 and costs were $17,202 for a net requirement of $11,579 from the Province.

10. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in Note 2 (b). As part of the restructuring activities certain capital assets were transferred to the Government of Canada for nil proceeds.

Coastal Transport Limited, a wholly owned subsidiary, was acquired from the Province of New Brunswick in 1978 to provide intra-provincial ferry service pursuant to annual funding and operating agreements with the Province. The Corporation, with the consent of the Province of New Brunswick, entered into an agreement with a former senior officer of the Corporation for the sale and purchase of this subsidiary for its net book value of five hundred dollars with effect from January 1, 1997. Approval from the Government of Canada was granted by Order-In-Council P.C. 1997-4/924 dated July 3, 1997.

11. Commitments and contingencies

(a) The total amount required to complete contracted capital assets under construction at December 31, 1997 is estimated to be $28 (1996—$659).

(b) The Corporation makes use of property which is available through operating leases, ending in 1998. The minimum annual lease payments for 1998 are $565.

(c) The Corporation is in receipt of claims estimated at $7,500 (1996—$4,700) (excluding Note 11 (f)). Management has recognized as an accrual their best estimate of the liability and they do not foresee this being materially higher in the near term.

(d) The Corporation has guaranteed the bank indebtedness of Newfoundland Dockyard Corporation, a subsidiary. The bank indebtedness position of Newfoundland Dockyard Corporation as at December 31, 1997 is nil (1996—$1,444).

(e) The Corporation's bank has provided a letter of credit in favour of Workplace Health, Safety and Compensation Commission of New Brunswick to guarantee payment of future liabilities in the amount of $4,200 (1996—$4,500). Management has not recognized any costs that will be associated with future workers' compensation benefits. There are four provinces to which the Corporation will have future liabilities for past injury claims. It is expected that these costs may be significant given that total payments in 1997 for these claims was $1,503 (1996—$1,700) (see also Note 2 (j) (ii)).

(f) The Corporation has provided five letters of guarantee in the total amount of $2,178 (1996—$2,268), to five creditors of a charter company. The guarantees were given to obtain the release of a vessel of the Corporation from arrest, which occurred when the company that had the vessel under charter went bankrupt. The Corporation has guaranteed to pay the creditors certain claims when and if they are deemed by the courts to be valid. Such costs will be included in operating expenses as incurred or when reasonable estimates can be made.

(g) The Corporation has provided a parent company guarantee covering the performance of its subsidiary, Newfoundland Dockyard Corporation, in the fabrication of certain Hibernian-related components delivered in June 1997. This guarantee extends through the warranty period expiring in December 1999 on this $2,300 project. The Corporation has provided a letter of credit in the amount of $117 to a customer of the subsidiary in exchange for the early advance of hold back amounts. Any costs incurred as a result will be included in operating expenses.

12. Pensions

The Corporation maintains a defined benefit pension plan covering substantially all of its employees. Benefits generally are based on employees' length of service and rate of pay. The last actuarial valuation as at December 31, 1995 identified a net surplus for the plan.

The present value of pension plan benefits and current pension expense are actuarially determined based on assumptions provided by the Corporation's management. The most significant of these are an interest rate of 8% (1996—8.0%) and wage increases of 5% plus merit increases (1996—5.0% plus merit increases). Differences in actual future interest rates and wage increases could result in materially different pension obligations.

The Corporation's pension costs and obligations as at December 31 consist of:

	1997	1996
Pension fund assets (market value)	474,717	438,112
Pension obligations	383,214	370,377
Determination of pension expense for the year is calculated as		
Current service cost	3,109	4,366
Interest on pension obligations	28,794	27,771
Return on fund assets	(31,409)	(29,662)
Other	(1,104)	(584)
Pension expense (income)	(610)	1,891

The cumulative difference of $2,514 (1996—$1,892) between the amounts expended and funding contributions is included in the balance sheet as a component of prepaid expenses.

A partial curtailment of the pension plan occurred in 1997 due to restructuring activities initiated in 1996. In 1996, a net gain of $6,254 on the planned curtailment was accounted for as a reduction in the provision for restructuring costs. The gain was reduced in 1997 to $4,254 and the statement of earnings includes an adjustment of $2,000 to the provision for restructuring costs.

13. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in 1997. In addition, the comparative figures are on a consolidated basis for the accounts of Coastal Transport Limited.

MONTRÉAL PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the balance sheet of Montréal Port Corporation as at December 31, 1997 and the statements of earnings, contributed capital and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have been, in all significant respects, in accordance with Part X of the *Financial Administration Act* and regulations, and the charter and by-laws of the Corporation.

Samson Bélair
Deloitte & Touche
Chartered Accountants

Montréal, Canada
February 3, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current assets		
Cash	971	176
Short-term investments (Note 3)	35,281	35,971
Accounts receivable	11,305	11,006
Materials and supplies	692	776
	48,249	47,929
Long-term investments (Note 3)	53,550	43,419
Fixed assets (Note 4)	157,900	158,725
Deferred costs	878	532
Other assets	247	268
	260,824	250,873

LIABILITIES	1997	1996
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	14,497	12,285
Grants in lieu of municipal taxes	612	494
	15,109	12,779
Accrued employee benefits	3,657	4,563
Loans from the Government of Canada (Note 6)	1,540	2,242
	20,306	19,584
EQUITY OF THE GOVERNMENT OF CANADA		
Contributed capital	153,919	153,919
Retained earnings	86,599	77,370
	240,518	231,289
	260,824	250,873

Approved by the Board:

RAYMOND LEMAY
Chairman

DOMINIC J. TADDEO
President and Chief Executive Officer

STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Revenues from operations	56,620	56,174
Operating and administrative expenses	35,588	37,180
Depreciation of fixed assets	10,698	11,141
Grants in lieu of municipal taxes	3,538	1,793
	49,824	50,114
Earnings from operations	6,796	6,060
Investment revenue	5,630	5,762
Net earnings	12,426	11,822

STATEMENT OF CONTRIBUTED CAPITAL AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Contributed capital		
Balance, beginning and end of year	153,919	153,919
Retained earnings		
Balance, beginning of year	77,370	67,990
Net earnings	12,426	11,822
Dividends	(3,197)	(2,442)
Balance, end of year	86,599	77,370

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Net earnings	12,426	11,822
Items not affecting cash		
Depreciation of fixed assets	10,698	11,141
Amortization of deferred costs	54	35
Loss on disposal of fixed assets	59	230
Decrease in accrued employee benefits	(906)	(226)
	22,331	23,002
Change in non-cash operating working capital items (Note 7)	2,074	519
	24,405	23,521
Financing activities		
Repayment of current portion of loans from the Government of Canada	(661)	(622)
Dividends paid	(3,197)	(2,442)
	(3,858)	(3,064)
Investing activities		
Increase in long-term investments	(10,131)	(16,210)
Acquisition of fixed assets	(10,253)	(11,361)
Disposal of fixed assets	321	420
Increase in deferred charges	(400)	
Decrease in other assets	21	120
	(20,442)	(27,031)
Net cash inflow (outflow)	105	(6,574)
Cash position, beginning of year	36,147	42,721
Cash position, end of year	36,252	36,147

Cash position comprises cash and short-term investments.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. Status and nature of activities

The Montreal Port Corporation (the Corporation) was incorporated by letters patent in accordance with subsection 6.2(1) of the *Canada Ports Corporation Act* on July 1, 1983.

Under Section 6.5 of the same Act, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour administered by the Board shall be deemed to have been transferred to the local port corporation, in this case the Corporation.

2. Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies:

Investments

Investments are shown at amortized cost, with premiums or discounts amortized over their periods to maturity.

Materials and supplies

Materials and supplies are valued at the lower of cost and replacement cost. Cost is determined substantially on an average cost basis.

Fixed assets

Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

Deferred costs

Deferred costs are composed of costs incurred to deepen the St. Lawrence River from Montreal to Saint-Augustin. These costs are amortized over 20 years.

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements or in accordance with Corporation policy.

3. Investments

Funds are invested in direct and guaranteed securities of the Government of Canada. As at December 31, 1997, the market value of short-term investments is equivalent to their amortized cost, and the market value of long-term investments is $59,990,372 ($50,974,070 in 1996).

4. Fixed assets

	Depreciation rates	1997			1996
		Cost	Accumulated depreciation	Net book value	Net book value
	%	(in thousands of dollars)			
Land		50,737		50,737	50,864
Dredging	2.5–10.0	16,178	14,928	1,250	1,534
Berthing structures	2.5–10.0	64,402	49,343	15,059	15,731
Buildings	2.5–10.0	68,991	42,123	26,868	28,234
Utilities	3.3–20.0	25,825	14,281	11,544	9,920
Roads and surfaces	2.5–10.0	85,527	41,341	44,186	42,868
Machinery and equipment	5.0–33.3	63,622	58,544	5,078	5,964
Office furniture and equipment	20.0–33.3	11,125	9,260	1,865	2,700
		386,407	229,820	156,587	157,815
Projects under construction		1,313		1,313	910
		387,720	229,820	157,900	158,725

5. Accounts payable and accrued liabilities

	1997	1996
	(in thousands of dollars)	
Current portion of loans from the Government of Canada	702	661
Deferred revenue	539	469
Other	13,256	11,155
	14,497	12,285

6. Loans from the Government of Canada

	1997	1996
	(in thousands of dollars)	
Loans, 6.25%, payable to 2000 in annual instalments of $842,561 including interest	2,242	2,903
Current portion	702	661
	1,540	2,242

Principal repayment requirements over the next years are as follows:

	$
1998	702,449
1999	746,352
2000	792,999

7. Changes in non-cash operating working capital items

	1997	1996
	(in thousands of dollars)	
Accounts receivable	(299)	2,042
Materials and supplies	84	(90)
Accounts payable and accrued liabilities, net of current portion of loans from the Government of Canada	2,171	1,333
Grants in lieu of municipal taxes	118	(2,766)
	2,074	519

8. Contingencies

Claims aggregating approximately $7,694,000 in respect of lawsuits and guarantees related to the Corporation's property have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

9. Commitments

(a) Contractual obligations for the completion, construction and purchase of property, plant and equipment are estimated at $941,000.

(b) Contractual obligations for operating expenditures are estimated at $720,000.

(c) In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation would be required to pay a dividend, in respect of the 1997 fiscal year, based on a method of calculation using net earnings. This dividend, payable before March 31, 1998, would amount to approximately $3,378,000 for 1997 and would be applied against retained earnings.

10. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Goverment of Canada and its agencies and other Crown corporations.

The Corporation derives revenue from related parties principally from grain warehousing for an amount of $3,410,000 ($1,425,000 in 1996), switching charges of $ nil ($1,061,000 in 1996), wharfage revenues of $612,000 ($494,000 in 1996) and rental revenues of $1,208,000 ($1,202,000 in 1996). The expenses paid to related parties are principally reimbursements to Canada Ports Corporation for head office charges related to the Corporation for an amount of $1,372,000 ($2,914,000 in 1996).

The Corporation has accounts receivable of $447,000 ($413,000 in 1996) and accounts payable of $112,000 ($896,000 in 1996) with the same related parties.

NATIONAL ARTS CENTRE CORPORATION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 1998
WERE NOT AVAILABLE AT DATE OF PRINTING

NATIONAL ARTS CENTRE CORPORATION

MANAGEMENT RESPONSABILITIES

The Board of Trustees, which is responsible for, among other things, the financial statements of the Corporation, delegates to Management the responsibility for the preparation of the financial statements and the annual report. Responsibility for their review is that of the Audit Committee of the Board of Trustees. The financial statements were prepared by Management in accordance with generally accepted accounting principles and include estimates based on Management's experience and judgement. The financial statements have been approved by the Board of Trustees on the recommendation of the Audit Committee. Other financial and operating information appearing in this annual report is consistent with that contained in the financial statements.

Management maintains books and records, financial and management control and information systems designed in such a manner as to provide reasonable assurance that reliable and accurate information is produced on a timely basis and that transactions are in accordance with the *National Arts Centre Act* and by-laws of the Corporation.

The Board of Trustees of the Corporation is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee. The Audit Committee discharges the responsibilities conferred upon it by the Board of Trustees, and meets on a regular basis with Management, and with the Auditor General of Canada, who has unrestricted access to the Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in accordance with generally accepted auditing standards and reports on the results of that audit on an annual basis.

John Cripton
Director and Chief Executive Officer

C. A. (Cy) Cook
Chief Financial Officer

AUDITOR'S REPORT

TO THE CHAIR OF THE BOARD OF TRUSTEES,
NATIONAL ARTS CENTRE CORPORATION

I have audited the balance sheet of the National Arts Centre Corporation as at August 31, 1997 and the statements of operations, equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
October 29, 1997

BALANCE SHEET AS AT AUGUST 31, 1997

ASSETS	1997	1996
	$	$
Current		
Cash and short-term investments (Note 3)	6,639,393	4,914,855
Accounts receivable (Note 4)	1,883,349	2,536,634
Parliamentary appropriation receivable (Note 5)	199,353	1,451,750
Inventories	271,724	362,632
Programmes in progress	1,069,397	912,323
Prepaid expenses (Note 6)	1,494,747	172,140
	11,557,963	10,350,334
Capital assets (Note 7)	7,773,305	9,490,834
	19,331,268	19,841,168

LIABILITIES	1997	1996
	$	$
Current		
Accounts payable and accrued liabilities (Note 3)	4,817,388	5,144,515
Deferred revenue	4,356,555	4,037,887
	9,173,943	9,182,402
Long-term portion of provision for employee termination benefits	992,624	909,716
	10,166,567	10,092,118
EQUITY OF CANADA		
Equity	8,777,222	9,489,861
National Arts Centre Foundation (Note 8)		160,293
Artistic Development Fund (Note 9)	387,479	98,896
	9,164,701	9,749,050
	19,331,268	19,841,168

Approved by Management:

JOHN CRIPTON
Director and Chief Executive Officer

C. A. COOK
Chief Financial Officer

Approved by the Board of Trustees:

JEAN THÉRÈSE RILEY
Chair

ANDREW OGARANKO
Member of Board and Chair of Audit Committee

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED AUGUST 31, 1997

	1997	1996
	$	$
Revenue		
Commercial services (Schedule 1)	10,794,579	8,919,160
Performing arts programmes (Schedule 2)	6,682,429	6,236,739
Programme support services	606,316	274,307
Interest revenue	203,235	233,328
Facility fees (Note 10)	192,761	
Artistic Development Fund—Net revenue (Note 9)	136,042	35,100
Other	65,573	51,414
	18,680,935	15,750,048
Expenses (Schedule 3)		
Commercial services (Schedule 1)	7,788,041	6,551,041
Performing arts programmes (Schedule 2)	14,053,167	13,841,748
Operation of the buildings (Note 6)	7,968,174	7,815,610
Programme support services	2,848,208	2,836,161
Administrative services	3,767,759	4,031,002
Board of Trustees (Note 11)	86,786	174,811
National Arts Centre Foundation—Net expense (Note 8)	7,752	8,186
	36,519,887	35,258,559
Excess of expenses over revenue	17,838,952	19,508,511

STATEMENT OF EQUITY
FOR THE YEAR ENDED AUGUST 31, 1997

	1997	1996
	$	$
Balance at beginning of the year	9,489,861	10,125,936
Parliamentary appropriation (Note 5)	17,254,603	18,899,350
Excess of expenses over revenue	(17,838,952)	(19,508,511)
Transfer of net revenue of the Artistic Development Fund (Note 9)	(136,042)	(35,100)
Transfer of net expenses of the National Arts Centre Foundation (Note 8)	7,752	8,186
Balance at end of year	8,777,222	9,489,861

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED AUGUST 31, 1997

	1997	1996
	$	$
Operating		
Excess of expenses over revenue	(17,838,952)	(19,508,511)
Items not affecting funds		
Amortization	2,645,617	2,502,217
Gain on disposal of capital assets	(33,181)	(875)
	(15,226,516)	(17,007,169)
Changes in non-cash operating assets and liabilities	(743,947)	189,163
Change in long-term portion of provision for employee termination benefits	82,908	17,027
	(661,039)	206,190
	(15,887,555)	(16,800,979)
Financing		
Parliamentary appropriation received	18,507,000	20,609,600
Investing		
Additions to capital assets	(1,156,752)	(1,236,956)
Proceeds on disposal of capital assets	261,845	875
	(894,907)	(1,236,081)
Increase in cash position	1,724,538	2,572,540
Cash position at beginning of year	4,914,855	2,342,315
Cash position at end of year	6,639,393	4,914,855

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1997

1. Authority, objectives and operations

The National Arts Centre Corporation (the "Corporation" or the "Centre") was established in 1969 pursuant to the *National Arts Centre Act* and is not subject to the provisions of the *Income Tax Act*. Pursuant to Section 85(1) of Part X of the *Financial Administration Act*, Divisions I to IV of Part X do not apply to the Corporation.

The objectives of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the showing of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objects include the development and encouragement of the performing arts in Canada; and, at the request of the Government of Canada or the Canada Council, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

With a view to achieving the objectives, the Government of Canada has leased without charge the National Arts Centre building complex to the Corporation. The lease is being renewed on a yearly basis. The Corporation is responsible for the operation and maintenance of the building.

2. Significant accounting policies

(a) Short-term investments

Short-term investments are valued at the lower of cost and market value.

(b) Parliamentary appropriation

The Corporation credits to equity each month one-twelfth of the approved appropriation. The parliamentary appropriation approved for the period from April 1 to August 31, is in respect of the Government of Canada's fiscal year ending on March 31 of the following year. Accordingly, the portion of the amount received to August 31, which is in excess of 5/12ths of the appropriation, is deferred to the following year. Similarly, the portion of the amount received to August 31, which is less than 5/12ths of the appropriation, is recorded as a receivable.

(c) Inventories

Inventories are valued at cost for restaurant supplies, food and beverages.

(d) Programmes in progress

Direct costs, including advances to performing companies and artists related to programmes (shows) that will be held after year-end, are deferred, and will be charged to expenses in the year in which the programmes take place.

(e) Capital assets

Capital assets are recorded at cost. Amortization is calculated on the straight-line method as follows:

Building—l'Atelier	20 years
Equipment	7 years
Computer software and hardware	3 & 5 years
Leasehold improvements	10 years

(f) Deferred revenue

Revenue from tickets sold related to programmes (shows) that will be held after year-end are deferred, and are recognized as revenue in the year in which the programmes take place.

(g) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination as provided for under their respective contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(h) Operating expenses

Expenses relating to performing arts programmes and commercial services do not include costs relating to building and equipment maintenance, utilities and administrative services.

(i) Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. Contributions to the Plan are required by both the employees and the Corporation on an equal basis. The Corporation's contributions represent the Corporation's total obligation and are recorded as they become due.

The Corporation is not required under present legislation to make contributions with respect to employees for actuarial deficiencies of the Public Service Superannuation Account.

3. Cash and short-term investments

The Corporation's policy is to invest temporary excess cash in short-term deposit certificates, bonds, and commercial paper with Canadian financial institutions. As at August 31, 1997, cash and short-term investments include bonds and commercial paper of $4,763,193 ($3,169,507 in 1996). The average yield of the portfolio was 3.46% for the year ending August 31, 1997 (5.59% in 1996). The fair value of short-term investments approximates the book value due to their impending maturity.

Cash and short-term investments included $69,673 (1996—$62,917) for National Arts Centre Orchestra Trust Fund, $61,132 (1996—$58,230) for National Arts Centre Orchestra Tour Fund, $16,569 (1996—nil) for Estate of Maureen Cumbers, and $937 (1996—$1,862) for Trudi LeCaine Fund. The same amounts were also included in accounts payable and accrued liabilites.

4. Accounts receivable

In the normal course of business, the Corporation sells its products to many customers. One customer represents 49% of the accounts receivable year-end balance (53% in 1996). The fair value of accounts receivable approximates the book value due to their impending maturity.

5. Parliamentary appropriation receivable

	1997	1996
	$	$
Balance at beginning of year	1,451,750	3,162,000
Credited to equity		
Operations	16,548,917	18,899,350
Municipal taxes	705,686	
	17,254,603	18,899,350
Received during the year	(18,507,000)	(20,609,600)
Balance at end of year	199,353	1,451,750

A portion of the Parliamentary appropriation is used for the financing of major repairs and improvements to the National Arts Centre building as approved by the Board of Trustees.

6. Prepaid expenses

The Corporation has paid six months' municipal taxes in the amount of $2,117,057 in 1996-97; $705,686 for July and August 1997 is included in expenses and $1,411,371 for September to December 1997 is included in prepaid expenses. The amount of $705,686 is included in Parliamentary appropriation and $1,411,371 is deducted from Parliamentary appropriation receivable. In the past, these taxes were paid directly by Public Works and Government Services Canada and were not included in the expenses of the Corporation.

7. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land —L'Atelier				90,000
Building —L'Atelier				169,443
Equipment	4,877,027	4,007,872	869,155	913,442
Computer sofware and hardware	2,813,684	2,078,698	734,986	928,512
Leasehold improvements	26,778,036	20,608,872	6,169,164	7,389,437
	34,468,747	26,695,442	7,773,305	9,490,834

The Corporation sold the Atelier (land and building) to La Nouvelle Scène on November 5, 1996 in return for $250,000 and continued rent-free access to the facility for a period of up to 15 years. The gain of $14,681 on disposal of the Atelier was included in "Other" revenue.

8. National Arts Centre Foundation

The National Arts Centre Foundation was a fund established in 1992 for the purpose of recognizing, stimulating and promoting excellence in the creation and performance of the arts of the stage by the award of bursaries, prizes and grants. On November 4, 1994, the Corporation decided to discontinue the Foundation, subject to the application of all remaining monies in the fund for the original purposes of the Foundation. On October 5, 1997, the Board of Trustees passed a resolution to approve the transfer of remaining monies in the Foundation to the Artistic Development Fund.

A summary of the transactions related to the Foundation is provided below:

	1997	1996
	$	$
Balance at the beginning of year	160,293	168,479
Interest revenue	8,255	10,389
Bursaries, prizes and grants	(15,958)	(18,024)
Administrative expenses	(49)	(551)
Net expenses	(7,752)	(8,186)
Transfer to Artistic Development Fund	(152,541)	
Balance at end of year		160,293

9. Artistic Development Fund

On November 4, 1994, the Corporation decided that a fund, to be known as the "Artistic Development Fund", be set up for the purpose of recognizing, stimulating and promoting excellence in the creation and performance of the arts of the stage by the award of bursaries and prizes to worthy recipients and by grants for worthy projects; and providing funding for special artistic programming projects undertaken by or with the participation of the National Arts Centre.

A summary of the transactions related to the Fund is provided below:

	1997	1996
	$	$
Balance at the beginning of year	98,896	63,796
Donations	275,424	84,519
Interest revenue	2,917	1,890
Fundraising expenses	(128,376)	(38,954)
Administrative expenses	(13,923)	(12,355)
Net revenue	136,042	35,100
Transfer from National Arts Centre Foundation	152,541	
Balance at end of year	387,479	98,896

10. Facility fees

On June 17, 1996, the Board of Trustees approved the adoption of a Facility Fee of $1.50 per single ticket sold effective the fiscal year 1996-97. The Corporation recognized $192,761 as revenue in 1996-97 which was applied to operation of the building.

11. Board of Trustees' expenses

The Board of Trustees' expenses in 1995-96 were higher than usual due to the development and implementation of an internal corporate re-organization which gave rise to additional meetings of the Board and its Committees. Furthermore, costs were incurred by the Board for the search of a Chief Executive Officer, a Chief Financial Officer and a Music Director.

12. Related party transactions

In addition to transactions outlined in Note 5, the Corporation is related in terms of common ownership to all Government of Canada-created departments, agencies and Crown corporations.

During the year, in the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Corporation incurred expenses totalling $620,440 (1996—$753,580) for utility, facilities and telephone services provided by other government departments and agencies and earned revenue totalling $887,366 (1996—$939,270) from special grants from, and restaurants' sales to, other government departments and agencies.

13. Contingencies

The Corporation is the claimant or defendant in certain pending claims and lawsuits. In management's opinion, the outcome of these actions is not likely to result in any material liabilities.

14. Fair value of financial instruments

In addition to what was already described in Notes 3 and 4, the fair value of parliamentary appropriation receivable, and accounts payable and accrued liabilities approximate the book value due to their impending maturity.

15. Comparative figures

Certain figures for 1996 have been reclassified to conform to the presentation adopted this year.

SCHEDULE OF REVENUE AND EXPENSES— COMMERCIAL SERVICES
FOR THE YEAR ENDED AUGUST 31, 1997 SCHEDULE 1

	1997	1996
	$	$
Revenue		
Restaurants	6,139,389	5,343,692
Rental of halls	2,603,848	1,601,625
Garage	2,051,342	1,973,843
	10,794,579	8,919,160
Expenses		
Restaurants	5,833,227	5,225,608
Rental of halls	1,493,927	855,938
Garage	460,887	469,495
	7,788,041	6,551,041
Excess of revenue over expenses	3,006,538	2,368,119

SCHEDULE OF REVENUE AND EXPENSES— PERFORMING ARTS PROGRAMMES
FOR THE YEAR ENDED AUGUST 31, 1997 SCHEDULE 2

	1997	1996
	$	$
Revenue		
Music	2,795,065	3,025,580
Theatre	2,138,730	1,941,576
Dance	838,687	1,102,801
Festival Canada	647,341	
Special events	262,606	164,695
Television		2,087
	6,682,429	6,236,739
Expenses		
Music	5,602,347	6,397,998
Theatre	3,500,161	3,913,152
Dance	1,561,144	2,359,010
Festival Canada	2,469,448	117,564
Special events	351,690	197,752
Television		269,439
Marketing administration	398,457	514,965
Artistic administration	112,937	71,868
Touring and special projects	56,983	
	14,053,167	13,841,748
Excess of expenses over revenue	7,370,738	7,605,009

SCHEDULE OF EXPENSES BY CATEGORY
FOR THE YEAR ENDED AUGUST 31, 1997 SCHEDULE 3

	1997	1996
	$	$
Salaries, wages and employee benefits	13,290,285	12,803,021
Performers' fees and expenses	8,177,533	7,903,009
Amortization	2,645,617	2,502,217
Cost of sales - commercial services	2,294,040	1,960,475
Repairs and maintenance	2,284,504	2,475,258
Advertising and promotion	2,280,608	2,072,379
Utilities	1,344,808	1,476,842
Professional fees and expenses	962,606	1,219,611
Municipal taxes (Note 6)	705,686	
Production expenses	611,747	676,772
Office expenses	466,776	540,475
Artistic co-production expenses	430,054	649,952
Commissions and service charges	395,261	287,643
Travel and duty entertainment	209,705	181,514
Telecommunications	147,520	144,274
Furniture and equipment	106,237	210,558
Insurance	77,827	67,898
Warehouse rent	50,804	50,247
Other	38,269	36,414
	36,519,887	35,258,559

NATIONAL CAPITAL COMMISSION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the National Capital Commission are the responsibility of management and have been approved by the members of the Commission. These financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, they include amounts that have been estimated according to management's best judgement.

Management has developed and maintains books of accounts, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the Commission's assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act*, and by-laws of the Commission. Internal audits are conducted to assess the performance of information systems and management controls and practices.

The Commission's external auditor, the Auditor General of Canada, has audited the financial statements and has reported on his audit to the Commission and to the Minister of Canadian Heritage.

The members of the Commission carry out their responsibilities for the financial statements principally through the Corporate Audit and Evaluation Committee, which consists of members of the Commission only. The Corporate Audit and Evaluation Committee meets periodically with management, as well as with the internal and external auditors, to discuss the results of the audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The external and internal auditors have full access to the Corporate Audit and Evaluation Committee, with or without the presence of management.

Marcel Beaudry
Chairperson

Robin Young
Vice-President, Strategic Planning and
Information Management

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the National Capital Commission as at March 31, 1998, and the statements of operations, equity of Canada and changes in cash resources for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act*, and the by-laws of the Commission.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1998

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1998	1997
Current		
Cash and short-term deposits (Note 3)	25,415	33,807
Accounts receivable		
Federal government departments and agencies	3,394	1,863
Tenants and others	2,088	2,093
Inventory and nursery stock	85	125
Prepaid expenses	3,306	2,804
Current portion of net investment in sales-type leases	268	245
	34,556	40,937
Net investment in sales-type leases		270
Trust account (Note 4)	4,711	4,335
Capital assets (Note 5)	357,468	347,694
	396,735	393,236

LIABILITIES	1998	1997
Current		
Accounts payable and accrued liabilities		
Federal government departments and agencies	3,165	1,231
Others	15,852	16,033
Current portion of unsettled expropriations of property	1,226	7,731
Current portion of provision for environmental clean-up (Note 8)	338	200
	20,581	25,195
Accrued employee termination benefits	3,443	3,075
Unsettled expropriations of property	1,528	1,522
Deferred insurance proceeds (Note 4)	4,711	4,335
Deferred rent inducement	3,956	4,139
Provision for environmental clean-up (Note 8)	1,802	277
Deferred revenue		398
	36,021	38,941
EQUITY OF CANADA	360,714	354,295
	396,735	393,236

The notes are an integral part of the financial statements.

Approved by the Commission:

MARCEL BEAUDRY
Chairperson

PIERRE ISABELLE
Chairperson, Corporate Audit and Evaluation Committee

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Income		
Rental operations and easements	12,671	15,669
Interest	1,208	1,661
Net gain on disposal of capital assets	3,003	23,712
Sponsorship		
Cash	782	809
Goods and services in kind	694	1,087
User access fees	1,111	1,034
Other fees and recoveries	2,488	2,925
	21,957	46,897
Cost of operations (Note 6)		
Planning the National Capital Region	1,682	2,275
Promoting and animating the National Capital Region	13,971	15,301
Real asset management and development	51,549	86,649
Corporate services	22,219	23,975
Restructuring cost	(371)	469
	89,050	128,669
Cost of operations before parliamentary appropriations	(67,093)	(81,772)
Parliamentary appropriations	52,278	67,219
Net cost of operations[1]	(14,815)	(14,553)
[1]ANALYSIS OF FUNDING THE NET COST OF OPERATIONS		
Net cost of operations	(14,815)	(14,553)
Expenses not requiring funding		
Amortization	14,921	13,273
Deferred rent inducement	(183)	(183)
Deferred revenue		(21)
Net gain on disposal of capital assets	(3,003)	(23,712)
Proceeds from disposal of equipment	73	1,654
Transfer from disposal of land (Note 3)	2,740	2,675
Disposal expenses	289	237
Interest revenue	(660)	(673)
Contribution		27,559
Parliamentary appropriations		(8,020)
Land contribution		6,050
Prior year commitments carry-over	4,893	607
Excess of funding over net cost of operations	4,255	4,893

The notes are an integral part of the financial statements.

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Balance at beginning of year, as previously reported		355,233
Adjustment for capital assets (Note 11)		(3,941)
Balance at beginning of year, restated	354,295	351,292
Net cost of operations	(14,815)	(14,553)
Parliamentary appropriations to acquire and improve capital assets	20,493	16,995
Canadiana Fund and other (Note 5)	741	561
Balance at end of year	360,714	354,295

The notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN CASH RESOURCES
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1998	1997
Operating activities		
Net cost of operations	(14,815)	(14,553)
Items not involving cash		
Amortization	14,921	13,273
Net gain on disposal of capital assets	(3,003)	(23,712)
Land contribution		6,050
Net change in non-cash working capital balances related to operations	(6,602)	(13,377)
Net change in cash restricted as to use and long-term liabilities	1,318	(1,019)
	(8,181)	(33,338)
Financing activities		
Parliamentary appropriations to acquire and improve capital assets	20,493	16,995
Canadiana Fund and other	741	561
	21,234	17,556
Investing activities		
Acquisitions and improvements to capital assets	(25,070)	(26,171)
Sales-type leases	247	(515)
Proceeds on disposal of capital assets	3,378	34,309
	(21,445)	7,623
Decrease in cash and short-term deposits	(8,392)	(8,159)
Beginning of year	33,807	41,966
End of year	25,415	33,807

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1998

1. Authority and objectives

The National Capital Commission was established in 1958 by the *National Capital Act*. The Commission is an agent Crown corporation without share capital named in Part I of Schedule III to the *Financial Administration Act*. The objects and purposes of the Commission, as stated in the *National Capital Act* as amended in 1988, are to:

(a) prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance;

(b) organize, sponsor or promote such public activities and events in the National Capital Region as will enrich the cultural and social fabric of Canada, taking into account the federal character of Canada, the equality of status of the official languages of Canada and the heritage of the people of Canada.

As well as these objectives, in 1988, the Act gave the Commission an important additional power: coordinate the policies and programs of the Government of Canada respecting the organization, sponsorship or promotion by departments of public activities and events related to the National Capital Region.

The Commission is also responsible for the management and maintenance of the Official Residences located in the National Capital Region. The Commission's income is not subject to the requirements of the *Income Tax Act*.

2. Significant accounting policies

(a) Capital assets

Capital assets are generally recorded at historical cost. Property acquired at nominal cost or by donation is recorded at market value at time of acquisition, except for properties of historical significance whose market value cannot reasonably be determined. These are recorded at nominal value. Artifacts donated to the Canadiana Fund are recorded at nominal value. Improvements that extend the useful life of buildings and equipment are recorded at cost. Contributed capital assets are recorded at fair value as of the date of contribution.

(b) Amortization

Amortization of assets in use is charged to operations in equal annual amounts based on the cost of the assets and their estimated useful life. Useful life of assets is estimated as follows:

Buildings	20 years
Parkways, roadways and bridges	25 years
Park landscaping and improvement	25 years
Leasehold improvements	Term of lease
Machinery and equipment	10 years
Office furniture	10 years
Office equipment	5 years
Vehicles	5 years
Antiques and works of art (10 years in 1996-97)	Nil
Computer and communications equipment (5 years in 1996-97)	3 years

(c) Non-monetary transactions

When a non-monetary transaction related to an asset exchange takes place and there is a change in the purpose for which the asset is held, the transaction is recorded at the fair market value of the asset exchanged. If there is no change in purpose for which the asset is held, the transaction is recorded at the carrying value of the asset given up.

(d) Inventory and nursery stock

Inventory is carried at cost. Nursery stock is valued at estimated cost.

(e) Pension plan

Commission employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Commission's contributions to the plan are limited to an amount equal to the employees' contributions on account of current and certain past service. These contributions represent the total pension obligations of the Commission and are charged to operations on a current basis. The Commission is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(f) Employee termination benefits

Severance pay generally accrues to employees over their service period and is payable on their separation or retirement. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

(g) Deferred rent inducement

The Commission currently leases its Headquarters office space. Moving expenses and major leasehold improvements incurred by the lessor to accommodate Commission needs have been recorded as of the effective date of the lease and are amortized over the term of the lease.

(h) Parliamentary appropriations

Parliamentary appropriations for operating expenditures and for grants and contributions to other levels of government and other authorities are included on the statement of operations. Parliamentary appropriations to acquire and improve capital assets are credited to the equity of Canada.

(i) Workers' compensation

The Commission assumes all risks for workers' compensation claims. The cost of claims resulting from injuries on duty are recorded in the years when compensation payments are due.

(j) Provision for environmental clean-up

The Commission records a provision for environmental clean-up in situations where the remediation is probable and the cost can be reasonably estimated. The cost of remediation varies depending on the use of the site. In other situations, no amount has been recorded because the extent of contamination and cost of clean-up cannot be reasonably assessed until further on-site testing is completed.

3. Cash and short-term deposits

The Commission's policy is to invest temporary excess cash in short-term deposit certificates, treasury bills, and banker's acceptances with Canadian financial institutions. These are recorded at cost. As at March 31, 1998, cash and short-term deposits include deposit certificates and banker's acceptances at a weighted average interest rate of 4.7% (3.2% in 1997). The fair value of cash and short-term deposits is equal to the book value due to the maturity date.

Cash and short-term deposits at year-end amounted to $25.415 million ($33.807 million in 1997). Included in this cash balance are funds that are restricted:

(a) Cash donations received for the Canadiana Fund in the amount of $32,327;

(b) Funds, in the amount of $17.815 million as follows:

(i) funds of $1.964 million relating to a 1990 long-term lease transaction that, pursuant to Governor in Council authority, have been restricted for the acquisition of environmentally-sensitive lands;

(ii) funds of $14.321 million arising from the disposal of lands and restricted for the Champlain Bridge rehabilitation;

(iii) funds of $1.530 million generated by the disposal of surplus properties that may be used to acquire real property or to support other major programs, as may be authorized by Treasury Board and Governor in Council;

Details of transactions are highlighted in the following analysis:

	Environmentally sensitive lands	Champlain bridge	Others	Total
	(in thousands of dollars)			
Restricted cash available at beginning of year	1,905	14,744	8,974	25,623
Proceeds on disposal			3,305	3,305
Acquisition/ disposal expenses			(289)	(289)
Interest	59	442	159	660
Acquisitions			(3,766)	(3,766)
Transfer to:				
Operating budget			(2,740)	(2,740)
Capital budget		(865)	(4,113)	(4,978)
Restricted cash available at end of year	1,964	14,321	1,530	17,815

4. Trust account

The Commission has segregated funds received from an insurance company in respect of a claim for damages arising from injuries sustained in an accident by an NCC employee. These funds have been paid to the Commission as it will be responsible to pay the continuing cost relating to this claim settlement. Future costs were assessed in an actuarial study completed in 1991.

As at March 31, 1998, the portfolio's overall rate of return was 13.8% (13.3% in 1997). All investments were made in accordance with the following strategy: short-term Canadian notes and treasury bills rated R1 by the Dominion Bond Rating Service and A1+ or A1 by the Canadian Bond Rating Service, Canadian bonds and debentures rated AAA, AA and A by the Dominion Bond Rating Service or A++, A+ and A by the Canadian Bond Rating Service, securities of the Government of Canada or of a provincial government to a maximum of 30% of the total market value of the portfolio.

As at March 31, 1998 and 1997, the fair value of the investments was approximately equal to the book value.

5. Capital assets

	March 31, 1998			March 31, 1997		
	Historical cost	Accumulated amortization	Net book value	Historical cost	Accumulated amortization	Net book value
	(in thousands of dollars)			(in thousands of dollars)		
Land and buildings						
Greenbelt	69,941	21,212	48,729	67,843	20,430	47,413
Gatineau Park	44,359	9,415	34,944	39,954	8,870	31,084
Parkways	99,865	44,271	55,594	94,556	42,025	52,531
Parks	49,339	20,335	29,004	43,600	18,759	24,841
Bridges and approaches	30,255	19,214	11,041	28,462	18,585	9,877
Historical sites	38,216	22,469	15,747	36,266	21,047	15,219
Recreational facilities	25,692	15,010	10,682	24,773	13,999	10,774
Rental properties	123,146	17,465	105,681	120,013	16,058	103,955
Development properties	26,589	4,061	22,528	25,043	3,905	21,138
Unsettled expropriations	2,754		2,754	9,253		9,253
Administrative and service buildings	17,101	12,035	5,066	16,246	11,436	4,810
	527,257	185,487	341,770	506,009	175,114	330,895
Less: Provision for transfers[1]	(1,838)		(1,838)	(1,838)		(1,838)
	525,419	185,487	339,932	504,171	175,114	329,057
Leasehold improvements	9,069	1,129	7,940	8,875	650	8,225
Equipment						
Machinery and equipment	1,475	1,088	387	1,478	884	594
Office furniture and equipment	3,975	2,422	1,553	4,017	2,163	1,854
Vehicles	772	620	152	1,057	714	343
Computer and communications equipment	16,313	12,547	3,766	15,545	10,954	4,591
Antiques and works of art						
Other	864		864	750		750
Canadiana Fund[2]	2,874		2,874	2,280		2,280
	26,273	16,677	9,596	25,127	14,715	10,412
Total	560,761	203,293	357,468	538,173	190,479	347,694

[1] Provision for transfers pertains to property to be transferred in accordance with agreements with the Province of Quebec. This includes lands to be given for the approaches to the Macdonald-Cartier Bridge and to be used as a right-of-way for Highway 550, in exchange for other lands.

[2] The Canadiana Fund was established to build the Crown Collection of antiques and works of art for the official residences. Additions during the current year amounted $741,000 ($561,000 in 1997). The balance of the Fund both cash and capital assets, at the end of the year amounted to $2.909 million ($2.347 million in 1997).

6. Information on the statement of operations

Summary of expenses by major classification

	1998	1997
	(in thousands of dollars)	
Salaries and employee benefits	25,715	30,210
Goods and services	34,516	35,467
Services in kind	694	1,087
Grants in lieu of municipal taxes	13,575	14,359
Contributions		33,804
Amortization	14,921	13,273
Restructuring costs	(371)	469
	89,050	128,669

Sector definitions and objectives

The Commission uses four sectors to structure its activities. Short, medium and long-term objectives linked to the mandate and mission have been developed for each one. The following are the long-term objectives established for each sector:

Planning the National Capital Region

To guide the physical development and use of federal lands, to coordinate and achieve excellence in design, and to plan development that is appropriate to the role and significance of the Capital of Canada.

Promoting and animating the National Capital Region

To increase awareness of the Capital Region outside the National Capital Region through national marketing campaigns, communications contacts (broadcasting) and outreach activities, and to present the Capital to visitors as a place to experience Canadian heritage, culture and achievements through varied services, events and programs.

Real asset management and development

To manage and protect physical assets of national significance on behalf of future generations of Canadians.

Corporate services

To promote efficient and productive use of resources through the centralized provision of corporate services to all of the business lines.

7. Major commitments

(a) The Commission has entered into agreements for services, leases of equipment and operating leases for office accommodations. The agreements show different termination dates, with the latest ending in 2020, and total $115.7 million.

The Commission has also privatized the management and maintenance of a portion of its lands and properties as part of the federal government's Program Review. Contracts totalling $21.4 million have been awarded for these functions; these contracts will terminate from 1999 to 2001.

Minimum annual payments under these agreements for the next five years are approximately as follows:

	(in thousands of dollars)
1998-99	15,653
1999-00	10,672
2000-01	8,595
2001-02	4,545
2002-03	4,551

(b) The Commission has entered into contracts for capital expenditures estimated to cost approximately $11.1 million. Payments under these contracts are expected to be made in 1998-99 and 1999-2000.

8. Contingencies

(a) Claims

Claims have been made against the Commission totalling approximately $11.6 million, excluding interest and other costs, for alleged damages and other matters. The final outcome of these claims is not determinable and, accordingly, these items are not recorded in the accounts. In the opinion of management, the position of the Commission is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the liability is determined.

(b) Agreement with the Province of Ontario

In 1961, the Commission entered into an agreement whereby the Province of Ontario established and maintains 2,761 hectares (6,820 acres) of forest. When the agreement expires in 2011, or is terminated, the Commission will reimburse the Province for the excess of expenses over revenues, or the Province will pay the Commission the excess of revenues over expenses. According to the latest report from the Province, at March 31, 1995, cumulative expenses exceeded cumulative revenues by $1.2 million, and are not reflected in the accounts of the Commission.

(c) Environmental protection

The Commission has conducted a preliminary analysis that has identified certain properties that, at the time of acquisition, qualified for potential remediation. Following this preliminary analysis, more detailed studies will be conducted in order to determine the degree of remediation required for the sites, to identify priority sites and to estimate the possible costs.

9. Related party transactions

The Commission is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations and is mainly financed by the Parliament of Canada.

In addition to the related party transactions described below, and those disclosed elsewhere in these financial statements, the Commission also enters into transactions with Crown entities. In the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Commission incurred expenses totalling $3.77 million ($6.92 million in 1997) for utilities, rental of space, assets and services purchased from other government departments and agencies, and earned revenues totalling $5.06 million ($3.48 million in 1997) from services rendered, rental operations and sales of assets to other government departments and agencies.

10. Fair value of financial instruments

In addition to what was already described in Notes 3, 4 and 6 relating to this topic, the fair value of accounts receivable and accounts payable and accrued liabilities approximates the book value due to their impending maturity. As for long-term items, the fair value of accrued employee termination benefits, unsettled expropriations of property and deferred rent inducement also approximates the book value.

11. Adjustments for capital assets

During the year, the Commission undertook a major review of its capital assets, their useful lives and related amortization. Following that review, the Commission has reduced the value of its capital assets and the opening balance of the equity of Canada as at April 1, 1996, by $ 3.941 million.

12. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

SUPPLEMENTARY INFORMATION

SCHEDULE OF LAND AND BUILDINGS AT AMORTIZED VALUES AS AT MARCH 31 UNAUDITED

	1998	1997
	(in thousands of dollars)	
Greenbelt properties	48,729	47,413
Gatineau Park	34,944	31,084
Parkways		
Confederation Boulevard	20,719	17,015
Ottawa River Parkway	9,549	9,628
Rockcliffe Parkway	8,000	8,302
Aviation Parkway	3,815	4,062
Airport Parkway	8	6
Voyageur Parkway	2,864	2,940
Colonel By Drive	2,076	2,023
Philemon-Wright Parkway	1,178	1,139
Other parkways—Quebec	2,797	2,814
Other parkways—Ontario	4,588	4,602
Total parkways	55,594	52,531
Parks		
Rideau River Park	2,669	2,597
Brewery Creek	1,195	1,301
Parliament Hill Promenade	2,803	2,651
Du Portage Park	370	496
Victoria Island	717	793
Taché Park	633	700
Sentier-de-l'Île Park	483	523
Commissioners Park	906	875
Vincent Massey and Hog's Back parks	1,056	1,004
E.B. Eddy Park	201	242
Other parks—Quebec	6,139	4,877
Other parks—Ontario	11,832	8,782
Total parks	29,004	24,841
Bridges and approaches		
Portage Bridge	1,184	971
Champlain Bridge	4,531	3,478
Macdonald-Cartier Bridgeheads	1,570	1,570
Deschênes-Britannia Approach	2,048	2,048
Hog's Back Bridge	376	396
Other bridges	1,332	1,414
Total bridges and approaches	11,041	9,877
Historical sites	15,747	15,219
Recreational facilities	10,682	10,774
Rental properties	105,681	103,955
Development properties	22,528	21,138
Unsettled expropriations	2,754	9,253
Administrative and service buildings	5,066	4,810
Less: Provision for future transfer of property per agreements	(1,838)	(1,838)
Total land and buildings	339,932	329,057

NATIONAL GALLERY OF CANADA

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the National Gallery of Canada (the Gallery) and all information in this annual report are the responsibility of management. The financial statements include some amounts that are necessarily based on management's estimates and judgment.

The financial statements have been prepared in accordance with generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained and transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act*, and the by-laws of the Gallery.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for maintaining adequate control systems and the quality of financial reporting. The Audit and Evaluation Committee of the Board of Trustees meets regularly with management and internal and external auditors to discuss auditing, internal controls and other relevant financial matters. The Committee reviews the financial statements and presents its recommendation to the Board of Trustees. The Board of Trustees approves the financial statements.

The external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon to the Minister of Canadian Heritage.

Pierre Théberge
Director

Yves Dagenais
Vice-Director

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the National Gallery of Canada as at March 31, 1998 and the statements of operations, changes in equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Gallery's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Gallery as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for unrestricted contributions and interest income on investments arising from such contributions as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Gallery that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Gallery.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1998

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997 (Restated Note 3)
Current		
Cash and investments (Note 4)	9,664	7,220
Accounts receivable	1,126	707
Inventories	2,015	2,080
Prepaid expenses	1,119	99
	13,924	10,106
Restricted cash and investments (Note 4)	3,744	6,022
Collection (Note 5)	1	1
Capital assets (Note 6)	7,768	7,454
	25,437	23,583

LIABILITIES	1998	1997 (Restated Note 3)
Current		
Accounts payable and accrued liabilities (Note 7)	5,098	4,389
Special Purpose Account (Note 8)	737	2,871
	5,835	7,260
Accrued employee termination benefits, long term portion	1,216	1,184
Deferred contributions (Note 9)	1,140	955
Total liabilities	8,191	9,399
ENDOWMENTS		
Endowments (Note 10)	126	125
EQUITY OF CANADA		
Invested in capital assets	7,768	7,454
Internally restricted	1,741	2,071
Unrestricted	7,611	4,534
Total equity of Canada	17,120	14,059
	25,437	23,583

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

JEAN-CLAUDE DELORME
Chairperson

MERLA BECKERMAN
Vice-Chairperson

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Expenses		
Collect		
—Operations	5,463	5,479
—Art acquisitions (Note 5)	5,617	848
Total—Collect	11,080	6,327
Educate and Communicate	17,101	12,291
Accommodate	13,154	10,987
Administer	4,435	3,475
Total expenses (Schedule 1)	45,770	33,080
Less: Operating and contribution revenue (Schedule 2)	12,834	4,832
Net cost of operations before government funding	32,936	28,248
Parliamentary appropriations		
Operating and capital expenditures	30,816	28,974
Purchase of objects for the collection (Note 8)		
—current year	3,000	3,000
—drawn from previous years	2,181	
—carried forward to future years		(2,152)
	5,181	848
Total—parliamentary appropriations	35,997	29,822
Excess of revenues over expenses	3,061	1,574

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	Invested in capital assets	Internally restricted	Unrestricted	1998 Total	1997 Total (Restated Note 3)
Balance at beginning of year, as previously stated	7,454		4,534	11,988	10,523
Increase due to the change in the accounting policy (Note 3)		2,071		2,071	1,962
Balance at beginning of year, as restated	7,454	2,071	4,534	14,059	12,485
Excess of revenues over expenses	(1,247)		4,308	3,061	1,574
Net investment in capital assets	1,561		(1,561)		
Acquisition of work of art		(417)	417		
Interest		62	(62)		
Contributions		25	(25)		
Balance at end of year	7,768	1,741	7,611	17,120	14,059

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Operating activities		
Excess of revenues over expenses	3,061	1,574
Items not affecting cash and investments		
Amortization	1,247	1,207
Net change in internally restricted transactions	330	(109)
Accrued employee termination benefits	32	59
Loss on disposal of capital assets	13	8
	4,683	2,739
Increase in non-cash working capital components	(665)	(1,451)
Funds provided by operating activities	4,018	1,288
Investing activities		
Purchase of capital assets	(1,578)	(797)
Proceeds from disposal of capital assets	4	4
Funds applied to investing activities	(1,574)	(793)
Increase in cash and investments during the year	2,444	495
Cash and investments at beginning of year	7,220	6,725
Cash and investments at end of year	9,664	7,220

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Authority, objectives and activities

The National Gallery of Canada (the Gallery) was established on July 1, 1990 by the *Museums Act* as a Crown corporation under Part I of Schedule III to the *Financial Administration Act*.

The Gallery's mandate as stated in the *Museums Act* is to develop, maintain and make known throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians. The Gallery's operations include its affiliate, the Canadian Museum of Contemporary Photography (CMCP).

The Gallery's operations are divided into four mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

Collect

To acquire, preserve, research and record historic and contemporary works of art, both national and international, to represent Canada's visual arts heritage and to use in its programs.

Educate and communicate

To further knowledge, understanding and enjoyment of the visual arts among all Canadians and to make the collections known both in Canada and abroad.

Accommodate

To provide a secure and suitable facility for the preservation and exhibition of the national collections of visual arts that is readily accessible to the public.

Administer

To provide direction, control and effective development and administration of resources.

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are:

(a) Inventories

Inventories are valued at the lower of cost and market value. In the case of books and publications, cost is written down over a maximum of three years to take into account obsolescence.

(b) Capital assets

Capital assets are recorded at cost and amortized using the straight-line method over their estimated useful lives as follows:

Equipment and furniture	5 to 12 years
Leasehold improvements	25 years
Building improvements	25 years
Vehicles	5 years

The original cost of the buildings occupied by the Gallery is not shown in the financial statements. The buildings are owned by the Government of Canada.

(c) Collection

The Gallery holds a collection of works of art for the benefit of Canadians, present and future. The collection is shown as an asset at a nominal value of $1,000 due to the practical difficulties of determining a meaningful value for these assets. Works of art purchased for the collection of the Gallery are recorded as an expense in the year of acquisition. Works of art donated to the Gallery are not recorded in the books of account.

(d) Pension plan

The employees of the Gallery participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Gallery contribute equally to the cost of the Plan. This contribution represents the total pension obligation of the Gallery. Contributions in respect of current service are expended during the year in which services are rendered. Admissible past service contributions are expended when paid.

The Gallery is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

On termination of employment, employees of the Gallery are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expended in the year in which they are earned.

(f) Parliamentary appropriations

Parliamentary appropriations for operating and capital expenditures are recognized on the statement of operations in the year of entitlement. Parliamentary appropriations for the purchase of objects for the collection are initially recorded in the Special Purpose Account in the year of entitlement and are recognized in the statement of operations at the time the acquisitions are made.

(g) Contributions

The Gallery follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted and related investment income are deferred and recognized as revenue in the year in which the related expenses are incurred. Endowment contributions are recorded as endowments on the balance sheet. The investment income arising from such contributions is deferred and recognized as revenue in the year in which the related expenses are incurred.

The Board of Trustees has directed that certain unrestricted contributions and interest income arising from such contributions be internally restricted for the purpose of acquiring objects for the collection and related activities.

Contributed services are recorded at their fair value at the date they are received by the Gallery. Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, their contributed services are not recognized in these financial statements.

(h) Bookstore and publishing

Expenses for the bookstore and publishing are included in operating expenses.

3. Change in accounting policy

Effective April 1, 1997, the Gallery changed its method of accounting for unrestricted contributions and interest income on investments arising from such contributions. As disclosed in Note 2(g), unrestricted contributions are recognized as revenue when received. Interest income on investments arising from such contributions is recognized as revenue when earned. Prior to 1998, these amounts were recognized as revenue in the year in which the related expenses were incurred. This change in accounting policy has been applied retroactively and the financial statements of the prior year have been restated.

The effect on operations is as follows:

	1998	1997
	(in thousands of dollars)	
Increase in contributions	25	23
Increase in interest	62	86
Increase in net operating results	87	109
The effect on the balance sheet is as follows		
Decrease in deferred contributions	87	109
Increase in equity of Canada	87	109

In 1998, the Gallery also reclassified previously reported trust account balances to equity, endowments and deferred contributions. The cumulative impact of these changes on these accounts is as follows:

Accounts previously reported as Trust Accounts

	1998	1997
	(in thousands of dollars)	
Balance at beginning of year	3,151	2,930
Reclassified as internally restricted equity	(2,071)	(1,962)
Reclassified as endowments	(125)	(124)
Balance at beginning of year as restated	955	844
Endowments reclassified from Trust Accounts	125	124
Increase in opening balance of equity due to reclassification from Trust Accounts	2,071	1,962

4. Cash and investments

The Gallery makes short term, low risk investments in the money market. These investments consist of a mix of Government of Canada Treasury Bills, Bankers' Acceptances and Money Market Mutual Funds. The portfolio yielded an average return of 3.60% (4.05% in 1996-97) and the average term to maturity was 109 days (89 days in 1996-97).

The balances at year-end are:

	1998	1997
	(in thousands of dollars)	
Cash and investments		
Cash	1,156	1,052
Money market investments	8,508	6,168
	9,664	7,220

Restricted cash and investments for:

Special purpose account (Note 8)		
Cash	310	32
Money market investments	427	2,839
	737	2,871
Deferred contributions, endowments and internally restricted funds		
Cash	183	119
Money market investments	2,442	2,639
Long-term receivable—Government of Canada	382	393
	3,007	3,151
	3,744	6,022

5. Collection

The Gallery has the nation's most extensive collection of visual arts, particularly Canadian art. The collection comprises some 45,000 works of art not counting photographs, and is divided into the following categories:

- Canadian Art, including Inuit Art
- Contemporary Art
- American, European and Asian Art
- 20th Century Modern Art
- Photographs
- Prints and Drawings

The Gallery acquires works of art by purchase, gift and bequest. Acquisitions in the year are as follows:

	1998	1997
	(in thousands of dollars)	
Purchase from special purpose account	5,181	848
Purchase from internally restricted funds	417	
Purchase from deferred contributions	19	
Total purchases	5,617	848
Gifts or bequests, at fair market value	18,475	1,552
	24,092	2,400

6. Capital assets

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Equipment and furniture	6,714	3,828	2,886	2,337
Leasehold improvements	3,981	956	3,025	3,185
Building improvements	2,368	535	1,833	1,928
Vehicles	25	1	24	4
	13,088	5,320	7,768	7,454

7. Accounts payable and accrued liabilities

	1998	1997
	(in thousands of dollars)	
Trade	3,515	2,608
Due to government departments and Crown corporations	975	656
Accrued salaries and benefits	608	1,125
	5,098	4,389

8. Special purpose account—Purchase of objects for the collection

Each year, the Gallery receives a $3,000,000 appropriation for the purchase of objects for the collection. The Gallery accumulates these funds, as well as the interest thereon, in a special purpose account which it uses to acquire, when opportunities arise, historically important, unique and high quality works that strengthen the collection.

	1998	1997
	(in thousands of dollars)	
Balance at beginning of year	2,871	640
Parliamentary appropriation	3,000	3,000
Interest	47	79
Total available	5,918	3,719
Purchase of objects for the collection	(5,181)	(848)
Balance at end of year	737	2,871

9. Deferred contributions

Deferred contributions represent the unrecognized portion of externally restricted contributions and investment income to be used for purchases of works of art or other specific activities such as exhibitions, publications, education programs or research as directed by the contributor.

The following summarizes the transactions for the year:

	1998	1997
	(in thousands of dollars)	(Restated Note 3)
Balance at beginning of year	955	844
Add receipts for year as restated		
Interest	38	39
Gifts and bequests	239	159
	277	198
Less amount recognized as revenue in the year as a result of		
Purchase of objects for the collection	19	
Other	73	87
	92	87
Balance at end of year	1,140	955

10. Endowments

Endowments consist of restricted donations received by the Gallery. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. The Gallery ensures that all funds with a restricted purpose are expensed for the purpose for which they were provided.

	1998	1997
	(in thousands of dollars)	(Restated Note 3)
Balance at beginning of year	125	124
Receipts for year gifts and bequests	1	1
Balance at end of year	126	125

11. Commitments

As at March 31, 1998, there remains $11,726,000 to be paid pursuant to various agreements. The major portion relates to the remainder of a 49 year lease with the National Capital Commission for the CMCP facility. The future minimum payments are as follows:

	(in thousands of dollars)
1998-99	1,740
1999-00	325
2000-01	325
2001-02	325
2002-03	325
2003-42	8,686

12. Contingent liabilities

Revenue Canada has challenged certain Goods and Services Tax (GST) Input Tax Credits claimed by the Gallery since October 1993. The issue revolves around whether the Gallery's 'free' general admission policy, which started in October 1993, constitutes an 'exempt supply' under the *Excise Tax Act* and whether the associated Input Tax Credits should be consequently disallowed. The Gallery has objected strongly to this challenge and is seeking clarification of the appropriate GST treatment of federal Crown corporations.

Because of the multiple unresolved issues, it is not clear as to whether Revenue Canada will proceed with an assessment and if so, on what basis. Also, because there is a wide range of estimation possibilities, depending on issue resolution, no provision has been made in these financial statements, either for a potential liability or for an offsetting appropriation receivable.

13. Related party transactions

Public Works and Government Services Canada made the payments in lieu of taxes with respect to the Gallery building and surrounding property up to June 30, 1997. For the period from April 1, 1997 to June 30, 1997 these have been evaluated at $801,000 ($3,239,000—April 1, 1996 to March 31, 1997) and have not been recorded in the financial statements.

The Gallery is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Gallery enters into transactions with these entities in the normal course of business.

14. Foundation

During the year, the National Gallery of Canada Foundation (the NGC Foundation) was created. It was incorporated under the *Canada Corporations Act* on June 27, 1997 and was given its charitable status by Revenue Canada on April 1, 1998. This is an entity distinct from the Gallery but the funds raised will be used for the sole benefit of the Gallery, as will be determined by the NGC Foundation.

15. Comparative figures

Certain reclassifications have been made to the 1997 comparative figures to conform with the current year's presentation.

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars) SCHEDULE 1

	1998	1997
Salaries and employee benefits	13,693	13,532
Purchase of works of art for the collection	5,617	848
Professional and special services	4,166	3,018
Cost of goods sold—bookstore and publishing	4,125	1,361
Repairs and upkeep of building and equipment	3,590	3,528
Payments in lieu of taxes	2,973	269
Utilities, materials and supplies	2,858	2,877
Protective services	2,383	2,354
Advertising	1,481	967
Amortization	1,247	1,207
Postage, freight and cartage	1,049	821
Travel	930	729
Publications	491	546
Rent	345	345
Communications	304	266
Library purchases	282	235
Rentals	83	90
Fellowships	83	66
Miscellaneous	70	21
	45,770	33,080

SCHEDULE OF OPERATING
AND CONTRIBUTION REVENUE
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars) SCHEDULE 2

	1998	1997 (Restated Note 3)
Bookstore and publishing	6,069	2,137
Admissions	2,457	543
Sponsorships	999	435
Parking	652	446
Memberships	563	112
Audio guides	474	48
Travelling exhibitions	433	196
Interest	417	366
Rental of public spaces	355	137
Art loans—recovery of expenses	83	148
Food services	78	48
Other	137	106
	12,717	4,722
Contributions	117	110
	12,834	4,832

NATIONAL MUSEUM OF SCIENCE AND TECHNOLOGY

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles, and the integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Museums Act* and by-laws of the Corporation.

The Board of Trustees is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls, and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements and reports to the Minister responsible for the Corporation.

Geneviève Sainte-Marie
Director

Graham Parsons
Director General, Corporate Services

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the National Museum of Science and Technology as at March 31, 1998 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for unrestricted contributions and interest income on investments arising from such contributions as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 12, 1998

BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997 (Restated Note 3)
Current		
Cash and short term investments (Note 4)	3,487	3,131
Accounts receivable		
—government departments	582	369
—others	161	201
Inventories (Note 5)	404	437
Prepaid expenses	146	22
	4,780	4,160
Restricted cash and investments (Note 6)	157	174
Collection (Note 7)	1	1
Capital assets (Note 8)	7,994	7,278
	12,932	11,613

LIABILITIES AND EQUITY OF CANADA	1998	1997 (Restated Note 3)
Current		
Accounts payable and accrued liabilities		
—government departments	438	563
—others	2,267	2,055
Current portion of accrued employee termination benefits	49	66
Deferred revenue	1,192	33
	3,946	2,717
Accrued employee termination benefits	943	802
Deferred contributions (Note 9)	157	174
	5,046	3,693
Equity of Canada	7,886	7,920
	12,932	11,613

The accompanying notes and schedule form an integral part of the financial statements.

Approved by Management

GENEVIÈVE SAINTE-MARIE
Director

GRAHAM PARSONS
Director General, Corporate Services

Approved by the Board of Trustees:

DAVID W. STRANGWAY
Chairperson

LEON F. LOUCKS
Chairperson, Audit Committee

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Revenue (Schedule)		
National Museum of Science and Technology		
Cost recoveries	1,313	1,207
Commercial operations	1,311	1,301
Corporate development	221	260
	2,845	2,768
National Aviation Museum		
Cost recoveries	635	432
Commercial operations	430	366
Corporate development	75	32
	1,140	830
Interest	134	157
Total revenue	4,119	3,755
Expenses (Schedule)		
National Museum of Science and Technology		
Display facility operation	8,305	7,345
Collection management	5,207	5,333
	13,512	12,678
National Aviation Museum		
Display facility operation	3,664	3,377
Collection management	1,573	1,664
	5,237	5,041
Support activities	4,237	4,379
Amortization	1,148	1,142
Total expenses	24,134	23,240
Net result of operations before government funding	20,015	19,485
Parliamentary appropriation (Note 12)	19,981	19,746
Net income (loss)	(34)	261

The accompanying notes and schedule form an integral part of the financial statements.

STATEMENT OF EQUITY CANADA
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Balance at the beginning of the year as previously stated	7,328	7,094
Increase due to the retroactive application of the change in accounting policy	592	565
Balance at the beginning of the year as restated	7,920	7,659
Net income (loss)	(34)	261
Balance at the end of the year	7,886	7,920

The accompanying notes and schedule form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997 (Restated Note 3)
Operating activities		
Net income (loss)	(34)	261
Items not affecting funds		
Amortization	1,148	1,142
Employee termination benefits	141	21
Loss (gain) on disposal of capital assets	(3)	16
Change in non-cash operating working capital items	965	312
Funds provided by operating activities	2,217	1,752
Investing activities		
Additions to capital assets (net)	(1,861)	(2,050)
Increase (decrease) in cash and short term investments	356	(298)
Cash and short term investments at the beginning of the year	3,131	3,429
Cash and short term investments at the end of the year	3,487	3,131

The accompanying notes and schedule form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Authority, mandate and operations

The National Museum of Science and Technology was established by the *Museums Act* on July 1st, 1990, and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The mandate of the Corporation as stated in the *Museums Act* is to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technical objects, with special but not exclusive reference to Canada, and by demonstrating the products and processes of science and technology and their economic, social and cultural relationships with society.

The Corporation's operations comprise the National Museum of Science and Technology, the National Aviation Museum and common support activities. Each Museum's operations are divided into two complementary activities:

Display facility operation

The operation of the public facilities of the Museum, including the development and maintenance of exhibits, interpretation, communication and promotion, gift shops, food services and other services to visitors.

Collection management

Curatorial research, cataloguing, documentation, conservation and restoration of the collection, the library, and related services.

2. Accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are:

(a) Inventories

Inventories are valued at the lower of cost and net realizable value.

(b) Collection

The collection constitutes the major portion of the Corporation's assets but is shown at a nominal value of $1,000 on the balance sheet because of the practical difficulties in reflecting it at a meaningful value. Items purchased for the collection are recorded as expenses in the year of acquisition. Items donated to the Corporation are not recorded in the books of account.

(c) Capital assets

Capital assets are recorded at cost and are amortized using the straight-line method over their estimated useful lives as follows:

Building renovations	10 to 25 years
Equipment	5 to 12 years
Office furniture	5 to 10 years

Since the buildings are not owned by the Corporation, no amortization is taken.

(d) Pension plan

The employees of the Corporation participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the Plan. This contribution represents the total pension obligation of the Corporation. Contributions in respect of current service are expensed during the year in which the service is rendered. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to certain benefits provided for under their collective agreement and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(f) Contributions

The Corporation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(g) Parliamentary appropriation

Parliamentary appropriation for operating and capital expenditures is recorded in the statement of operations in the fiscal year for which it is approved.

3. Change in accounting policy

Effective April 1, 1997 the Corporation changed its method of accounting for unrestricted contributions and interest income on investments arising from such contributions. As disclosed in 2(f), unrestricted contributions are recognized as revenue when received. Interest income on investment arising from such contributions is recognized as revenue when earned. Prior to 1998, these amounts were recognized as revenue in the year the expenses were incurred. This change in accounting policy has been applied retroactively and the financial statements of the prior year have been restated.

	1998	1997
	(in thousands of dollars)	
Increase in revenue		
Donations	7	7
Interest on cash and investments	20	22
Increase in net operating results	27	29
The effect on the balance sheet is as follows		
Decrease in deferred contributions	27	29
Increase in equity of Canada	27	29

The opening equity of Canada balance as at April 1, 1996 has been increased by $564,719 and a similar offsetting cumulative increase has been made to deferred contributions.

4. Cash and short-term investments

	1998	1997
	(in thousands of dollars)	
Cash	936	539
Interest on cash and investments	2,551	2,592
	3,487	3,131

The Corporation investments are limited to 60 days in Schedule "A" banks, and government-backed paper and A++ Canadian Bond rated paper. The average rate of return in 1997-98 was 3.75% consistent with 3.75% in 1996-97.

5. Inventories

	1998	1997
	(in thousands of dollars)	
Books, pamphlets, replicas and other materials	384	420
Publications in process	20	17
	404	437

6. Cash and restricted investments

Restricted cash and investments arise from contributions received from individuals and corporations for specific purposes and are managed in accordance with the donor's wishes and the by-laws of the Corporation.

7. Collection

Part of the Corporation's mandate, is "to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technological objects..." This is the main asset of the Corporation, which has been recorded at a nominal value of $1,000 on the statements due to the practical difficulties in reflecting it at a meaningful value. The collection is composed of over 450,000 items divided in the following areas.

Communications—the graphic arts, film, photography and related systems, broadcasting, sound recording and reproduction, electronic communications and electronic music.

Industrial technology—generic industrial processes, engineering, industrial design, construction, domestic appliances, tools and systems.

Natural resources—energy production, processing and infrastructure, mining and extraction technology

Renewable resources—agriculture, forestry and fishery technologies—harvesting and primary processing.

Scientific instrumentation—instruments, tools and systems with direct application to mathematics, chemistry, physics, as well as astronomy, astrophysics, medicine, meteorology, surveying and mapping, information technology.

Transportation—motorized and non-motorized wheel, track and trackless vehicles, motorized and non-motorized marine transportation as well as the supporting infrastructure of technologies, tools and instruments.

Aviation—Aircraft and related materials.

8. Capital assets

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Building renovations	8,382	2,050	6,332	5,381
Equipment	4,278	3,568	710	867
Office furniture	4,980	4,028	952	1,030
	17,640	9,646	7,994	7,278

9. Deferred contributions

Deferred contributions represent unspent externally restricted contributions and related investment income.

	1998	1997
	(in thousands of dollars)	
		(Restated Note 3)
Balance at the beginning of the year	174	148
Receipts		
Gifts and bequests	69	20
Interest	4	6
Total receipts	73	26
Amount recognized as revenue in the year	(90)	
Balance at the end of the year	157	174

10. Related party transactions

The Corporation is related to all Government of Canada departments, agencies and Crown corporations.

The Corporation incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

11. Commitments

As at March 31, 1998, the Corporation had entered into various agreements for accommodation, protection services and exhibition rentals. The future minimum payments are as follows:

	1998-99	1999-00	2000-05
	(in thousands of dollars)		
Total	3,166	3,167	11,556

12. Parliamentary appropriation

	1998	1997
	(in thousands of dollars)	
Operating and capital expenditures before the following	18,198	19,636
Severance adjustments and retroactive wage settlement	363	110
Payment in lieu of taxes	1,255	
Farm reconstruction	1,150	
Total	20,966	19,746
Less amount deferred for farm reconstruction	(985)	
Total	19,981	19,746

13. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 1997-98.

SCHEDULE
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998	1997
Revenues		
Cost recoveries		
Admissions	1,323	1,254
Other	625	385
Commercial operations		
Boutiques	825	861
Food services	317	284
Other	599	522
Corporate development	296	292
Interest	134	157
Total revenue	4,119	3,755
Expenses		
Personnel costs	11,447	10,810
Professional and special services	1,908	2,538
Leases of buildings	1,666	1,911
Property taxes	1,290	264
Amortization	1,148	1,142
Utilities	917	797
Material and supplies	881	800
Cost of goods sold	677	933
Publications	597	510
Advertising	517	528
Property management services	456	296
Repairs and upkeep of equipment	441	345
Protection services	439	488
Rentals of equipment	262	188
Design and display	261	175
Repairs and upkeep of buildings	254	591
Freight express and cartage	225	185
Travel	193	203
Communications	193	192
Office supplies and equipment	138	173
Books	94	91
Purchase of objects for the collection	65	40
Miscellaneous	65	40
	24,134	23,240

OLD PORT OF MONTREAL CORPORATION INC.

MANAGEMENT REPORT ON ITS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Corporation's Management is responsible for preparing and presenting the financial statements in the annual report. These have been prepared in accordance with generally accepted accounting principles and necessarily contain estimates made by Management to the best of its judgement and for which Management takes responsibility. Management acknowledges its responsibility for choosing accounting principles and methods which are compatible with the Corporation's circumstances. Financial information presented elsewhere in the annual report is consistent with that included in the financial statements.

Management applies internal controls, accounting principles and practices so as to provide a reasonable degree of certainty that financial information is relevant and reliable, that the assets it manages are safeguarded and that the transactions of the Corporation have been in compliance with the appropriate authorizations. The Corporation has appointed Fauteux Bruno Bussière Leewarden, Chartered Accountants, to conduct periodic internal audits of the above-mentioned controls. This firm has made its observations and recommendations to Management and to the Audit Committee of the Board of Directors, to which it has unlimited access.

The Board of Directors is responsible for the study and approval of the financial statements, as well as for overseeing how Management discharges its responsibility for the presentation of financial information. The Board exercices this responsibility primarily through the Audit Committee, which is composed exclusively of Directors who are not part of Management nor employed by the Corporation. This committee examines the financial statements with Management and representatives of the Auditor General of Canada, who is appointed as external auditor by the shareholder, before submitting them to the Board for approval. This committee also examines the work plans submitted by the internal and external auditors and meets with them in order to discuss their findings and observations regarding the accounting issues, the audit procedures and the presentation of financial information. The Auditor General of Canada is responsible for auditing the transactions and the financial statements of the Corporation and for expressing an opinion on these financial statements.

Management considers that the financial statements present fairly the financial position of the Corporation and the results of its operations and the changes in its financial position. The Board of Directors has studied and approved the financial statements following a recommendation from the Audit Committee.

Pierre Émond
President and Chief Executive Officer

Dany Bleau, C.A.
Vice-President
Finance and Human Resources

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

I have audited the balance sheet of the Old Port of Montreal Corporation Inc. as at March 31, 1998 and the statements of revenue, expenditures and Minister's account and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporation Act*, the articles and the by laws of the Corporation and the Agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works and Government Services.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1998

BALANCE SHEET AS AT MARCH 31, 1998

ASSETS	1998	1997
	$	$
Current		
Cash	2,123,359	648,415
Accounts receivable	445,177	267,015
Prepaid expenses	402,954	514,162
Total assets	2,971,490	1,429,592

LIABILITIES	1998	1997
	$	$
Current		
Accounts payable	1,187,003	779,577
Due to		
Receiver General for Canada (Note 3)	499,927	206,373
Deferred revenue	15,734	59,423
	1,702,664	1,045,373
Provision for employee termination benefits (Note 4)		381,004
	1,702,664	1,426,377
EQUITY OF CANADA		
Minister's Account	1,268,826	3,215
Capital stock (Note 5)		
	2,971,490	1,429,592

Commitments (Note 10).
See accompanying notes to the financial statements.

Approved by the Board:

BERNARD LAMARRE
Director

J.V. RAYMOND CYR
Director

REVENUE, EXPENDITURES AND MINISTER'S ACCOUNT FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Revenue		
Animation programs	3,906,652	4,059,224
Less: Royalties to third parties	221,533	321,758
	3,685,119	3,737,466
Daily and monthly parking	2,144,358	2,247,163
Concessions and exclusive rights	1,691,025	1,667,697
Interest	93,184	33,871
Grant	27,699	92,598
Other	533,792	509,269
	8,175,177	8,288,064
Expenditures		
Operating expenditures		
Maintenance of property and space rental	4,705,176	4,470,488
Animation programs	3,276,853	3,154,190
Administration	1,817,991	1,787,686
Communications	2,017,636	2,119,204
	11,817,656	11,531,568
Excess of operating expenditures over revenue	3,642,479	3,243,504
Capital expenditures (Note 6)	3,798,356	258,429
Excess of expenditures over revenue	7,440,835	3,501,933
Revenue allotted to the Consolidated Revenue Fund of Canada	293,554	305,929
Amount to be funded for the year	7,734,389	3,807,862
Minister's Account		
Parliamentary appropriation received	9,000,000	3,800,000
Increase (decrease) for the year	1,265,611	(7,862)
Balance at beginning of year	3,215	11,077
Balance at the end of the year	1,268,826	3,215

See accompanying notes to the financial statements.

CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1998

	1998	1997
	$	$
Operating activities		
Excess of operating expenditures over revenue	(3,642,479)	(3,243,504)
Decrease (increase) in accounts receivable	(178,162)	347,157
Decrease (increase) in prepaid expenses	111,208	(329,740)
Increase (decrease) in accounts payable	407,426	(910,313)
Increase (decrease) in deferred revenue	(43,689)	17,820
Increase (decrease) in the provision for employee termination benefits	(381,004)	38,990
	(3,726,700)	(4,079,590)
Investing activities		
Capital expenditures	(3,798,356)	(258,429)
Financing activities		
Parliamentary appropriations received	9,000,000	3,800,000
Remittance to the Consolidated Revenue Fund		(137,130)
	9,000,000	3,662,870
Cash		
Increase (decrease) for the year	1,474,944	(675,149)
Balance at beginning of the year	648,415	1,323,564
Balance at the end of the year	2,123,359	648,415

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1998

1. Authority and activities

The Old Port of Montreal Corporation Inc. was incorporated on November 26, 1981 under the *Canada Business Corporations Act* and is a wholly owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

Effective February 1, 1982, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works and Government Services, the Corporation is responsible for developing and for promoting the development of the lands of the Old Port of Montreal, and for administering, managing, and maintaining the property of Her Majesty located therein. The Corporation fulfils this responsibility in the name and for the account of the Minister of Public Works and Government Services who continues to hold title to the capital assets for the benefit of Her Majesty.

2. Significant accounting policies

(a) Financial statement presentation

The financial statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works and Government Services.

(b) Amount to be funded

All expenditures incurred by the Corporation, net of revenue used for its operations, are reimbursable by the Minister of Public Works and Government Services using a parliamentary appropriation.

The difference between parliamentary appropriations received and the amount to be funded is recorded in the Minister's Account.

(c) Employee termination benefits

On termination of employment, under specific conditions and the terms defined in the salary administration policy of the Corporation, employees are entitled to certain benefits. The cost of such benefits is recorded in the year the conditions are met.

(d) Revenue

Pursuant to the agreement between the Corporation and the Minister of Public Works and Government Services, proceeds from the direct use of capital assets having titles held by the Minister are allotted to the Consolidated Revenue Fund of Canada and are to be remitted to the Receiver General for Canada. Other proceeds are used by the Corporation for its operations.

(e) Expenditures of a capital nature

Expenditures of a capital nature represent costs that significantly increase the value or extend the useful lives of properties administered by the Corporation and they also include costs of demolishing structures. Capital assets are not disclosed in the balance sheet since the Minister of Public Works and Government Services hods title to the capital assets for the benefits of Her Majesty.

(f) Retirement savings plan

The Corporation has established a group retirement savings plan under which a single trust was established with a private sector organization in order to accumulate contributions to provide a retirement income for the employees through individually registered retirement savings plans. The Corporation acts solely as an agent without incurring any liability.

3. Due to Receiver General of Canada

	1998	1997
	$	$
Balance at beginning of the year	206,373	37,574
Proceeds allotted to the Consolidated Revenue Fund of Canada		
Derived from operations		
Monthly parking	203,700	211,995
Rentals	74,339	70,432
Other	15,515	23,502
Total	293,554	305,929
	499,927	343,503
Remittances		(137,130)
Balance at end of the year	499,927	206,373

4. Termination benefits

During 1997-98, the Government of Canada approved the Expotec Canada (Montreal Interactive Science Centre) project. As a result, the estimated duration of the Corporation's activities in the development of the Old Port of Montreal has been revised. Since the conditions defined in the salary administration policy for the payments of termination benefits are no longer being met, the provision, estimated at $381,004 as at March 31, 1997, has been revised accordingly and accounted for as a reduction of the 1997-98 operating expenses.

5. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor General in Council. The authorized share has been issued in consideration of services rendered.

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1998—*Concluded*

6. Breakdown of accumulated capital expenditures

	Accumulated as at March 31, 1997	1997-98	Accumulated as at March 31, 1998
	$	$	$
Improvement to land and to bodies of water	84,216,874	307,733	84,524,607
Buildings	22,566,660	1,791,864	24,358,524
Bridges	4,531,906	36,654	4,568,560
Major wharf repairs	7,955,000		7,955,000
Furniture, urban furniture and equipment	7,050,626	853,840	7,904,466
Substructure and public services	4,689,197	808,265	5,497,462
Archaeological relics	479,000		479,000
Total	131,489,263	3,798,356	135,287,619

7. Fair value of financial instruments

The transactions related to cash, accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short term maturity. There is no concentration of accounts receivable with any customer and, consequently, the risk is low.

8. Non-monetary transactions

The Corporation has granted exclusive rights to some of its sponsors in exchange for publicity. These non-monetary transactions were at arm's length and recorded equally in revenue and in expenditure at the fair value of the assets and services received, estimated at $255,000 in 1997-98 ($263,700 in 1996-97).

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

10. Commitments

As at March 31, 1998, the commitments totalled $2,668,007 ($1,983,421 as at March 31, 1997) for operating activities, mainly for publicity, films and rentals, and $941,847 (nil as at March 31, 1997) for investing activities.

11. Cumulative data since November 26, 1981

	Accumulated as at March 31, 1997	1997-98	Accumulated as at March 31, 1998
	$	$	$
Capital expenditures	131,489,263	3,798,356	135,287,619
Excess of operating expenditures over revenue	36,454,741	3,642,479	40,097,220
Revenue allotted to the Consolidated Revenue Fund of Canada	5,245,871	293,554	5,539,425
Amount funded by the Minister of Public Works and Government Services	173,189,875	7,734,389	180,924,264

PACIFIC PILOTAGE AUTHORITY

MANAGEMENT REPORT

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The Authority's management is responsible for the integrity and objectivity of the data in these financial statements along with the supporting information contained in the annual report. Management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee which meets regularly with management.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements of the Authority and for issuing his report thereon.

D. B. McLennan
Chairman

B. D. Chadwick
Controller

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of the Pacific Pilotage Authority as at December 31, 1997 and the statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 6, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term investment (Note 3)	2,639	1,135
Temporary investment (Note 4)	907	936
Accounts receivable (Note 3)	2,958	3,025
Prepaid expenses	56	87
	6,560	5,183
Long-term		
Capital assets (Note 5)	614	642
	7,174	5,825

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities (Note 3)	2,877	2,821
Long-term		
Accrued employee termination benefits	666	656
	3,543	3,477
Commitments (Note 6)		
EQUITY OF CANADA		
Contributed capital	806	806
Retained earnings	2,825	1,542
	3,631	2,348
	7,174	5,825

The accompanying notes are an integral part of these financial statements.

Approved by the Authority:

D. B. McLELLAN
Chairman

G. A. ADAMS
Member

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Revenues		
Pilotage charges	39,702	35,967
Interest and other income	100	72
	39,802	36,039
Expenses		
Contract pilots' fees	26,260	24,916
Transportation and travel	4,180	3,605
Operating costs of pilot boats	4,179	3,812
Staff salaries and benefits	1,768	1,658
Pilots' salaries and benefits	1,130	951
Professional and special services	262	213
Rentals	207	204
Amortization	153	185
Utilities, materials and supplies	126	128
Computer services	124	69
Communications	96	97
Repairs and maintenance	34	21
	38,519	35,859
Net income for the year	1,283	180

The accompanying notes are an integral part of these financial statements.

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Appropriated		
Balance at beginning and end of the year	500	500
Unappropriated		
Balance at beginning of the year	1,042	862
Net income for the year	1,283	180
Balance at end of the year	2,325	1,042
	2,825	1,542

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Net income for the year	1,283	180
Items not affecting cash		
Amortization	153	185
Employee termination benefits	10	14
Loss on disposal of capital assets		4
Change in non-cash operating components of working capital	154	(277)
Cash generated by operating activities	1,600	106
Investing activities		
Additions to capital assets	(125)	(62)
Decrease (increase) in temporary investment	29	(936)
Cash used by investing activities	(96)	(998)
Increase (decrease) in cash	1,504	(892)
Cash and short-term investments at beginning of the year	1,135	2,027
Cash and short-term investments at end of the year	2,639	1,135

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Authority and objectives

The Pacific Pilotage Authority was established in 1972 pursuant to the *Pilotage Act*. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

Pilotage services on the Fraser River are provided by employee pilots and in other coastal waters under a contract with a local licensed pilots' company.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is not subject to any income taxes.

2. Significant accounting policies

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings		20 years
Pilot boats		25 years
Equipment	—communication and other	10 years
	—computer	3 years
Leasehold improvements		15 years

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees. Annual leave is recorded at an estimated value based on outstanding leave credits. Other estimates are based on experience.

Contributed capital

Amounts representing the values assigned to capital assets transferred from Canada in 1972 and the cost of any property and equipment financed from parliamentary appropriations are shown as contributed capital.

Appropriated retained earnings

Amounts are appropriated from time to time by the Authority to provide for extraordinary costs arising from renewal or acquisition of capital assets and for contingencies.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

3. Financial instruments

The Authority invests its short-term funds with a Canadian chartered bank and in other Government of Canada guaranteed instruments.

Due to the short term nature of accounts receivable, accounts payable and accrued liabilities, their fair value approximates book value.

There is no concentration of accounts receivable with any one customer, and accordingly there is no significant credit risk.

4. Temporary investment

The Authority invests in government-backed securities only. Its investment portfolio as at December 31, 1997 is comprised of a $907,000 (1996—$936,000) Export Development Corporation Bond, valued at cost, (yield 3.71%) which matures March 25, 1998. The fair market value of the investment as at December 31, 1997 approximates the carrying value.

5. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net	Net
	(in thousands of dollars)			
Buildings	119	64	55	50
Pilot boats	1,306	1,117	189	226
Equipment				
—Communication and other	688	400	288	315
—Computers	564	498	66	24
Leasehold improvements	81	65	16	27
	2,758	2,144	614	642

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997—*Concluded*

6. Commitments

The Authority has a long-term operating lease obligation for office accommodation aggregating $173,520 to December 31, 1999 at a base annual rent of $86,760. The obligation also calls for pro-rata share of annual operating costs estimated at $35,000 for 1998.

The Authority has an operating lease agreement for the services at Cape Beale of a manned pilot boat until December 31, 1998. For 1998 the rent will be $375,381.

The Authority has a commitment to the British Columbia Coast Pilots Ltd. to contribute $125,000 per annum towards pilot training costs, for the duration of the 5 year contract between the two parties, commencing January 1, 1997.

7. Comparative figures

Certain 1996 figures, which are presented for comparison purposes, have been reclassified to conform with the current year presentation.

PETRO-CANADA LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF FINANCE

I have audited the balance sheet of Petro-Canada Limited as at December 31, 1997 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Petro-Canada Limited Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 13, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997
(stated in millions of dollars)

ASSETS	1997	1996
Current assets		
Cash and short-term deposits	3	3
Accrued interest receivable	9	9
Current portion of investments	12	11
	24	23
Investments (Note 5)	440	425
	464	448

LIABILITIES AND SHAREHOLDER'S EQUITY	1997	1996
Current liabilities		
Accrued interest payable	9	9
Deferred revenue (Note 4)	24	27
Long-term debt (Note 6)	427	409
Shareholder's equity (Note 7)	4	3
	464	448

See accompanying notes

Approved by the Board:

ROBERT HAMILTON
Director

JOY F. KANE
Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1997

(stated in millions of dollars)

	1997	1996
Revenue		
Interest revenue	38	40
Expenses		
Interest on long-term debt	37	39
Net income	1	1
Deficit at beginning of year	(26)	(27)
Deficit at end of year	(25)	(26)

See accompanying notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1997

(stated in millions of dollars)

	1997	1996
Operating activities		
Net income	1	1
Non-cash items included in income		
Accrued interest	(10)	(13)
Amortization of premiums	1	2
Amortization of deferred revenue	(3)	(3)
	(11)	(13)
Investing activities		
Proceeds from maturity of investments	11	86
Financing activities		
Repayment of long-term debt		(73)
Increase in cash and short-term deposits		
Cash and short-term deposits at beginning of year	3	3
Cash and short-term deposits at end of year	3	3

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997
(tables are stated in millions of dollars)

1. The Corporation

Petro-Canada Limited ("the Corporation") is an agent Crown corporation named in Part II of Schedule III of the *Financial Administration Act*. The objective of the Corporation is to meet its obligations on its outstanding bonds and its current and future operating costs from the revenues generated by its investment portfolio and cash reserves.

Pursuant to an Order-in-Council and subsequent amendments to income tax legislation, effective July 3, 1991, the Corporation became an exempt corporation for purposes of the *Income Tax Act* and is not liable for income taxes after that date.

2. Summary of significant accounting policies

(a) Translation of foreign currency

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Related interest revenue and expense are translated at rates of exchange in effect at the respective transaction dates. Investments hedge foreign currency fluctuations on long-term debt. Unrealized exchange gains or losses arising on translation of investments are offset against those relating to the long-term debt with the difference recorded in the investment component of the balance sheet.

(b) Investments

Investments are carried at cost less amortization of premiums on acquisition. Premiums on acquisition are amortized on a straight-line basis over the life of the related bond. Strip bonds are carried at cost plus accrued interest.

(c) Deferred revenue

Deferred revenue is amortized on a straight-line basis over the life of the related debt.

3. Related party transactions

The Corporation holds investments with a face value of Canadian $254 million (1996—Canadian $244 million) in Export Development Corporation, an agent Crown corporation of the Government of Canada, and has Canadian $3 million on deposit with the Government of Canada (1996—Canadian $3 million). The investments earn interest of Canadian $21 million per annum (1996—Canadian $21 million). The deposit earned interest of Canadian $184,000 during 1997 (1996—Canadian $133,000). The interest has been reflected in the statement of operations as interest revenue. At December 31, 1997, Canadian $9 million was owing to Petro-Canada Limited for interest earned during 1997 (1996—Canadian $9 million).

4. Deferred revenue

In May 1991, the Corporation entered into a debt restructuring agreement ("the Agreement") with Petro-Canada and the Government of Canada whereby Petro-Canada was to prepay to the Corporation the outstanding debentures receivable due to the Corporation based on the market value of the debentures on the date of prepayment. At December 31, 1992, Petro-Canada had prepaid all debentures receivable due to the Corporation thereby completing the repayment required under the terms of the Agreement. Proceeds from the prepayments were used to retire long-term debt of the Corporation. Where outstanding debentures in long-term debt could not be retired, investments were purchased by the Corporation to meet the future obligations on such debt.

Under the Agreement Petro-Canada paid to the Corporation a prepayment premium in consideration of the costs associated with the prepayment of debentures receivable.

The Corporation has deferred the portion of the gain on retirement of debentures receivable and the portion of the prepayment premium associated with the long-term debt not redeemed.

5. Investments

The investments are high quality government debt securities that are intended to be held until maturity and as a result no adjustments are made for any decreases in market value. Proceeds from interest and principal maturity of the investments approximate the Corporation's interest and principal obligations of the debentures in long-term debt both in respect of the timing of payments and the currency of payments.

Credit risk: About 99% of the securities in the investment portfolio are U.S. government and agency securities and Export Development Corporation notes, which are considered to be low risk, and the other 1% are provincial government securities.

Terms and conditions: Strip bonds, which receive interest at maturity, earn effective interest of 5.56% to 8.61%. These bonds mature between 1998 and 2018. Coupon bonds receive interest semi-annually at interest rates of 7.05% to 10.35%. These bonds mature between 1998 and 2019.

Fair value: The fair value of the investments is Canadian $465 million at December 31, 1997 (Canadian $477 million at December 31, 1996). The fair value is determined by quoted market prices.

6. Long-term debt

	Maturity	1997	1996
9.50% unsecured debentures (U.S. $88 million)	2003	125	120
8.60% unsecured debentures (U.S. $158 million)	2010	226	216
8.25% unsecured debentures (U.S. $33 million)	2016	47	46
9.70% unsecured debentures (U.S. $16 million)	2018	23	22
8.80% unsecured debentures (U.S. $4 million)	2019[1]	6	5
		427	409

[1] Redeemable, at face value, in 2004 at the option of the holder thereof.

There is no repayment of long-term debt in the next five years.

The fair value of the long-term debt portfolio is Canadian $513 million at December 31, 1997 (Canadian $473 million at December 31, 1996). The fair value is determined by quoted market prices.

7. Shareholder's equity

	1997	1996
Capital	2,727	2,727
Deficit	(25)	(26)
	2,702	2,701
Shareholder's equity attributed to investment in Petro-Canada transferred to the Government of Canada in 1991	(2,698)	(2,698)
	4	3

Authorized capital

(a) 71,188 common shares with a par value of one hundred thousand dollars each, and

(b) Preferred shares issued to the Government of Canada provided that the amount of such shares together with any loans received, and outstanding, from the Consolidated Revenue Fund of the Government of Canada is not in excess of one billion dollars. These shares have a par value of one dollar each, are redeemable at par at the option of the Corporation, carry no stated rate of dividend and are non-cumulative.

Issued to the Government of Canada

	Number of Shares	1997	1996
Common shares	17,540	1,754	1,754
Preferred shares	972,771,853	973	973
Total capital		2,727	2,727

PORT OF QUÉBEC CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the balance sheet of Port of Québec Corporation as at December 31, 1997 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997, and the results of operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have been, in all significant respects, in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and with the charter and by-laws of the Corporation.

Mallette Maheu
General Partnership
Chartered Accountants

Québec, Canada
January 23, 1998

BALANCE SHEET AS AT DECEMBER 31

ASSETS	1997	1996
	$	$
Current assets		
Cash and short-term investments (Note 4)	7,086,381	4,708,592
Accounts receivable (Note 5)	3,159,421	2,362,959
Materials and supplies	207,003	217,506
	10,452,805	7,289,057
Investments (Note 4)	2,602,454	3,684,570
Fixed assets (Note 6)	49,836,547	50,973,332
	62,891,806	61,946,959

LIABILITIES	1997	1996
	$	$
Current liabilities		
Accounts payable and accrued liabilities	1,852,577	1,230,174
Grants-in-lieu of municipal taxes	187,500	148,275
Deferred revenues	924,229	880,467
	2,964,306	2,258,916
Long-term debt		
Accrued employee benefits	555,709	595,000
	3,520,015	2,853,916
EQUITY OF CANADA		
Contributed capital	58,169,735	58,169,735
Surplus	1,202,056	923,308
	59,371,791	59,093,043
	62,891,806	61,946,959

Commitments (Note 7).

On behalf of the Board:

MICHEL BÉRUBÉ
Chairman

ROSS GAUDREAULT
President and Chief Executive Officer

EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31

	1997	1996
	$	$
Revenues from operations	13,348,833	12,748,250
Expenses		
Operating and administrative	8,639,591	7,776,192
Charges from National Office	289,852	417,357
Grants-in-lieu of municipal taxes	1,338,846	1,247,625
	10,268,289	9,441,174
Earnings before depreciation, financial income and unusual item	3,080,544	3,307,076
Depreciation of fixed assets	3,335,216	3,200,139
Earnings (loss) before financial income and unusual item	(254,672)	106,937
Financial income		
Investment income	504,115	487,760
Interest expense		(127,853)
	504,115	359,907
Earnings before unusual item	249,443	466,844
Unusual item		
Gain on sale of land	827,623	
Severance pay (Note 3)	(798,318)	
	29,305	
Earnings for the year	278,748	466,844
Surplus at beginning of year	923,308	456,464
Surplus at end of year	1,202,056	923,308

CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31

	1997	1996
	$	$
Operating activities		
Earnings for the year	278,748	466,844
Operating items not involving cash		
Depreciation of fixed assets	3,335,216	3,200,139
Accrued employee benefits	(39,291)	(220,000)
Gain on sale of fixed assets	(826,279)	(23,601)
Other	32,116	(6,523)
	2,780,510	3,416,859
Net change in non-cash components of working capital	737,088	(61,487)
Net funds from operations	3,517,598	3,355,372
Investing activities		
Decrease in long-term investments	1,050,000	1,000,000
Additions to fixed assets	(2,223,341)	(1,577,215)
Sale of fixed assets less amounts receivable of $ 817,657	33,532	39,768
Net funds used for investments	(1,139,809)	(537,447)
Increase in cash position	2,377,789	2,817,925
Cash position at beginning of year	4,708,592	1,890,667
Cash position at end of year	7,086,381	4,708,592

Cash position consist of cash and short-term investments.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. Statutes of incorporation

The Port of Quebec Corporation was incorporated on June 1st, 1984, under section 6.2(1) of the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

2. Significant accounting policies

Investments

Investments, which are guaranteed Securities of Canada, are shown at amortized cost whereby premiums and discounts from par value are amortized over the periods to maturity.

Fixed assets

Fixed assets are recorded at cost except for those transferred to the corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis commencing with the year the asset becomes operational, using the following annual rates:

Dredging	2.5%-6.7%
Berthing structures	2.5%-10%
Buildings	2.5%-10%
Utilities	3.3%-10%
Roads and surfaces	2.5%-10%
Machinery and equipment	5%-20%
Office furniture and equipment	20%

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Grants-in-lieu of municipal taxes

Grants-in-lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with its policy.

Fair value of financial instruments

The fair value of financial instruments other than investments, namely cash, accounts receivable and liabilities, is believed to equal their carrying amounts.

3. Severance pay

Canada Ports Corporation has undertaken the dismantling of all police services under its jurisdiction. Even though this service was the responsibility of Canada Ports Corporation, all costs were supported by Port of Québec Corporation.

The police force of Port of Québec Corporation has been abolished as of October 12, 1997 carrying a cost of $798,318, additional to what had already been accounted for in the past.

4. Investments

Short-term investments of $1,038,924 maturing within one year consist of guaranteed Securities of Canada and their fair value is $1,060,815.

Long-term investments of $2,602,454 consist of Canada bonds maturing from 1999 to 2001 and their fair value is $2,775,031.

5. Accounts receivable

Accounts receivable include an amount of $817,657 receivable from the sale of land.

6. Fixed assets

	1997			1996
	Cost	Accumulated depreciation	Net value	Net value
	$	$	$	$
Land	11,155,836		11,155,836	11,155,836
Dredging	4,561,341	4,203,856	357,485	385,546
Berthing structures	25,287,347	20,807,131	4,480,216	4,207,611
Buildings	43,306,776	24,654,052	18,652,724	19,238,211
Utilities	20,414,857	8,856,358	11,558,499	12,116,928
Roads and surfaces	6,510,255	5,446,665	1,063,590	1,176,313
Machinery and equipment	1,210,206	733,796	476,410	398,114
Office furniture and equipment	652,116	437,681	214,435	118,586
Projects in progress	1,877,352		1,877,352	2,176,187
	114,976,086	65,139,539	49,836,547	50,973,332

Projects in progress include an amount of $1,313,800 for studies and construction plans. Management believes that these costs will be charged to specified fixed assets.

7. Commitments

The Corporation is committed by a financing lease to rent equipments for the unloading of nickel. The maximum cost to be supported by the Corporation is $23,000,000 plus accrued interest during the construction period. Annual equal instalments including principal and interest are payable by the client in order to amortize the loan over a period of 20 years, renewable for another period of 10 years thereafter. The interest rate used will be the yield rate of 10-year Canada bond on the day of disbursements plus 1%. At the end of the first 10-year term, the then yield rate of a 10-year Canada bond will replace the first term interest rate.

The Corporation has financed its investment in this financing lease with a loan of a maximum of $23,000,000 which is a decreasing revolving term loan, repayable over a period of 20 years, plus interest at the prime rate or banker's acceptance rate plus stamping fees of 0.5% per year. The prime rate and the stamping fees will increase by 0.25% and 0.2% respectively if the Canadian government becomes by a law no longer committed to the bank for Port of Québec Corporation. Moreover, the Corporation will have to assign to the bank its rent, the equipment and the terminal if such a law is passed. The Corporation takes part in swap transactions to cover itself from interest rate risk. The Corporation will have to repay 15.5% of the loan in the first 5 years.

8. Related party transactions

During the year, the Corporation entered into transactions with related entities including various departments, government organizations and Crown corporations.

Principally, the Corporation earned rental revenues of $573,000 (1996—$638,000) from related entities. The expenses paid to related parties mainly consist in reimbursements of $290,000 (1996—$417,000) to Canada Ports Corporation as its share of the Corporation's head office expenses.

The Corporation has accounts payable of $164,000 (1996—$243,000) and accounts receivable of $118,000 (1996—$203,000) with the same related parties.

9. Transportation system review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation in 1998 of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act.*

At this time, the impact upon the Corporation is not known, but it is not expected to have a significant impact on operations.

10. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

PRINCE RUPERT PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the balance sheet of Prince Rupert Port Corporation as at December 31, 1997 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the letters patent and by-laws of the Corporation.

KPMG
Chartered Accountants

New Westminster, Canada
January 30, 1998

BALANCE SHEET AS OF DECEMBER 31, 1997

ASSETS	1997	1996
	$	$
Current assets		
Cash	619,975	1,495,708
Investments (Note 2)	9,551,528	14,811,561
Accounts receivable	2,546,040	1,519,194
Materials and supplies	196,909	153,162
	12,914,452	17,979,625
Capital assets (Note 3)	92,371,112	94,278,897
	105,285,564	112,258,522

LIABILITIES AND EQUITY OF CANADA	1997	1996
	$	$
Current liabilities		
Accounts payable and accrued liabilities	817,009	338,475
Grants in lieu of municipal taxes	750,000	910,247
Deferred revenues	276,979	275,391
Current portion on loans from Canada		371,545
	1,843,988	1,895,658
Loans from Canada		9,625,656
EQUITY OF CANADA		
Contributed capital	84,611,805	84,611,805
Surplus	18,829,771	16,125,403
	103,441,576	100,737,208
	105,285,564	112,258,522

Commitments (Note 4).
See accompanying notes to financial statements.

On behalf of the Board:

RHODA WITHERLY
Chairman

DONALD H. KRUSEL
President and Chief Executive Officer

STATEMENT OF EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Revenue from operations	13,245,653	12,514,232
Expenses		
Contractual services	4,581,873	4,985,316
Operating and administrative	3,708,970	3,266,854
Amortization	2,061,347	2,335,484
Grants in lieu of municipal taxes	658,263	797,755
	11,010,453	11,385,409
Earnings from operations	2,235,200	1,128,823
Other earnings (expense)		
Interest	493,433	794,563
Interest expense		(1,180,734)
	493,433	(386,171)
Net earnings	2,728,633	742,652
Surplus, beginning of year	16,125,403	15,398,413
	18,854,036	16,141,065
Dividend to Canada	24,265	15,662
Surplus, end of year	18,829,771	16,125,403

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Cash provided by (used in)		
Operations		
Net earnings	2,728,633	742,652
Items not involving cash		
Amortization	2,061,347	2,335,484
Changes in non-cash operating working capital	(750,718)	89,324
	4,039,262	3,167,460
Financing		
Increase in contributed capital		5,000,000
Decrease in loans from Canada	(9,997,201)	(5,337,276)
Dividend to Canada	(24,265)	(15,662)
	(10,021,466)	(352,938)
Investment		
Purchase of capital assets	(153,562)	(439,517)
Increase (decrease) in cash position	(6,135,766)	2,375,005
Cash position, beginning of year	16,307,269	13,932,264
Cash position, end of year	10,171,503	16,307,269
Cash position is defined as		
Cash	619,975	1,495,708
Investments	9,551,528	14,811,561
Cash position	10,171,503	16,307,269

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

Local port corporation

The Prince Rupert Port Corporation was established effective June 1, 1984 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

On June 1, 1984, all the assets and liabilities of Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by Canada Ports Corporation.

1. Significant accounting policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates. A summary of the significant accounting policies of the Corporation is as follows:

(a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Capital assets

Capital assets are recorded at cost. Amortization is calculated on the straight-line basis commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	5%
Berthing structures	2.5%-10%
Buildings	5%-10%
Roads and surfaces	3.3%-10%
Utilities	5%-10%
Machinery and equipment	5%-100%
Office furniture and equipment	20%-33.3%

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or for indexation payments under the *Supplementary Retirement Benefits Act*.

(d) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Government Services Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

2. Investments

	1997	1996
	$	$
Amortized cost	9,551,528	14,811,561
Market value	9,523,344	14,845,125

3. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Land	63,748,741		63,748,741	63,748,741
Dredging	332,186	123,231	208,955	225,759
Berthing structures	36,631,080	13,060,270	23,570,810	24,660,200
Buildings	5,631,495	2,849,237	2,782,258	3,116,937
Roads and surfaces	7,283,357	5,615,955	1,667,402	1,898,846
Utilities	2,758,152	2,556,664	201,488	211,299
Machinery and equipment	2,458,475	2,354,214	104,261	77,156
Office furniture and equipment	414,023	391,570	22,453	54,926
Construction in progress	64,744		64,744	285,033
	119,322,253	26,951,141	92,371,112	94,278,897

4. Commitments

The Corporation rents its premises under an operating lease which expires April 30, 1999. The future rent payable to the expiry date is approximately as follows:

	$
1998	81,685
1999	27,228

5. Related party transactions

(a) During the year, the Corporation earned lease revenue of $2,041,093 (1996—$1,723,047) from Ridley Terminals Inc., a company which is a wholly-owned subsidiary of Canada Ports Corporation. At December 31, 1997, accounts receivable included $290,491 (1996—$124,142) from Ridley Terminals Inc.

(b) During the year, the Corporation paid $244,290 (1996—$356,321) to Canada Ports Corporation as its share of that Corporation's head office expense. At December 31, 1997, accounts payable included $22,098 (1996—accounts payable of $20,430) to Canada Ports Corporation.

6. Financial instruments

(a) Interest rate risk

The Company's short term investments are exposed to interest rate risk. As interest rates rise or fall, the market value of their investments will fall or rise accordingly.

(b) Fair values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

QUEENS QUAY WEST LAND CORPORATION

AUDITORS' REPORT

TO THE MINISTER OF PUBLIC WORKS
AND GOVERNMENT SERVICES

I have audited the balance sheet of Queens Quay West Land Corporation as at March 31, 1998 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporation Act* and the articles and by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 8, 1998

BALANCE SHEET AS AT 31 MARCH 1998

ASSETS	1998	1997
	$	$
Current assets		
Cash and short-term investments (Note 3)	1,178,133	2,767,217
Receivables	287,058	130,470
	1,465,191	2,897,687
Non-current assets		
Receivable from the City of Toronto	407,231	122,102
Land	1	1
	407,232	122,103
	1,872,423	3,019,790

LIABILITIES AND SHAREHOLDER'S DEFICIENCY	1998	1997
	$	$
Current liabilities		
Accounts payable and accrued liabilities	1,061,337	1,917,353
Loans from Canada (Note 4)	45,800,000	45,800,000
Shareholder's deficiency		
Share capital (Note 5)	1	1
Contributed capital	1,000,000	1,000,000
Deficit	(45,988,915)	(45,697,564)
	(44,988,914)	(44,697,563)
Contingencies (Note 8)		
	1,872,423	3,019,790

See accompanying notes to financial statements.

On behalf of the Board:

DAVID F. ELLIS
Director

ANNE S. MORASH
Director

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED MARCH 31

	1998	1997
	$	$
Corporate and commercial operations		
Revenues		
Parking income (Note 7)	63,320	858,434
Commercial and other income (Note 7)	205,100	737,777
Interest	90,437	143,184
	358,857	1,739,395
Expenses		
Commercial management	920,265	1,377,668
Corporate administration	120,931	150,519
	1,041,196	1,528,187
Net corporate and commercial income (loss)	(682,339)	211,208
Development operations		
Land sales (Note 7)	786,000	
Period development costs (Note 6)	(395,012)	(2,376,247)
Net development income (expense)	390,988	(2,376,247)
Net parking and commercial income assigned to Harbourfront Foundation (Note 7)	1,065,512	475,517
Contributions to Harbourfront Foundation (Note 7)	(1,065,512)	(475,517)
Parliamentary appropriations from Canada for operating contributions to Harbourfront Centre	4,100,000	6,700,000
Operating contributions to Harbourfront Centre	(4,100,000)	(6,700,000)
Net loss for the year	(291,351)	(2,165,039)
Deficit, beginning of year	(45,697,564)	(43,532,525)
Deficit, end of year	(45,988,915)	(45,697,564)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1998	1997
	$	$
Operating activities		
Net loss for the year	(291,351)	(2,165,039)
Amortization		9,119
Deferred development costs		2,120,024
	(291,351)	(35,896)
Receivables and other assets	(441,717)	(79,193)
Accounts payable and accrued liabilities	(856,016)	(637,436)
	(1,589,084)	(752,525)
Contributions to Harbourfront Centre (Note 7)	(4,100,000)	(6,700,000)
Contributions to Harbourfront Foundation (Note 7)	(1,065,512)	(475,517)
	(5,165,512)	(7,175,517)
Cash applied to operating activities	(6,754,596)	(7,928,042)
Financing activities		
Parliamentary appropriations from Canada for operating contributions to Harbourfront Centre	4,100,000	6,700,000
Net parking and commercial income assigned to Harbourfront Foundation	1,065,512	475,517
Cash provided by financing activities	5,165,512	7,175,517
Decrease in cash and short-term investments	(1,589,084)	(752,525)
Cash and short-term investments, beginning of year	2,767,217	3,519,742
Cash and short-term investments, end of year	1,178,133	2,767,217

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. The Corporation

Queens Quay West Land Corporation (the "Corporation"), incorporated under the *Canada Business Corporations Act* on December 21, 1984, is a Crown corporation listed under Part I of Schedule III of the *Financial Administration Act*. The share capital of the Corporation is held by Her Majesty the Queen in Right of Canada ("Canada") as represented by the Minister of Public Works and Government Services. Legislation dealing with the sale of the Corporation's assets and the subsequent dissolution of the Corporation received royal assent in November, 1991. The Corporation is exempt from corporate income tax.

The Corporation operates the Harbourfront site (the "Site") under a Management Agreement with Canada. The site, totaling approximately 100 acres, was originally held by Canada. In recent years, much of the land has been conveyed to the City of Toronto with the intended use being parkland and public infrastructure. Of the original 100-acre site, the Corporation currently holds only two remaining properties, consisting of approximately 5.8 acres, YQ4 located at 200 Queens Quay West and BQ7, located on 545 Lakeshore Blvd. West.

The Corporation's mandate is to provide solutions to all outstanding business issues, find an alternate funding vehicle to Harbourfront Centre and sell all the remaining assets. This will allow Queens Quay West Land Corporation to be wound up. The Corporation intends to fulfill its obligations and commitments, including those pursuant to the Management Agreement with the Minister of Public Works and Government Services. The Corporation's 1998 Corporate Plan and the Management Agreement have been approved by Governor in Council. The Corporation is managed on a fee-for-service basis by Canada Lands Company CLC Limited.

Agreements with Canada permit the sale or conveyance by the Corporation of certain remaining real estate assets with the proceeds to be used to assist the Corporation in discharging its obligations. The Corporation has received significant financial support from Canada and continues to be dependent on Canada to ensure that the Corporation's obligations and commitments are met as they come due.

In addition to the related party transactions disclosed elsewhere in these financial statements, the Corporation enters into transactions with Canada and other Crown corporations in the normal course of business.

2. Accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies of the Corporation are as follows:

(a) Revenue recognition

Revenues from commercial activities are recognized as the related services are provided.

(b) Land

Transfers of land to the Corporation from Canada required to facilitate certain development agreements are recorded at a nominal cost.

(c) Period development costs

Costs related to development activities, parkland and public infrastructures not directly attributable to a project are recorded in the Statement of Operations as period development costs.

(d) Short-term investments

Short-term investments are carried at cost.

3. Short-term investments

The Corporation invests in the short-term money market. The overall portfolio yield for the year was 3.4% (1997—4.6%). All instruments held in short-term investments are rated R1-middle or better by the Dominion Bond Rating Service. The average term to maturity is 30 to 90 days. The fair value of short-term investments as at March 31, 1998 and 1997 approximated the net book value.

4. Loan from Canada

The loan from Canada is non-interest bearing and is due and payable March 31, 2004. The Corporation may prepay the loan principal at anytime without penalty upon fourteen days' prior notice. The fair value of the loan is $34 million (1997—$30 million) on a discounted basis. Upon the disposal of YQ4 and BQ7, payments of $10.5 and $3.0 million respectively are due to the City of Toronto, and the remaining funds are to go towards paying the loan from Canada to the extent possible. At March 31, 1998 the face value of the loan exceeded the value of the Corporation's assets. However, included in these assets are two properties carried at a nominal value of $1. It is management's estimate that the net proceeds from the sale of the two properties will only be sufficient to pay 40% of the loan from Canada.

5. Share capital

The authorized share capital of the Corporation consists of 500,000 (1997—500,000) common shares without par value of which 215,000 (1997—215,000) shares are issued and fully paid for consideration of $1 (1997—$1).

6. Development operations

The period development costs of $395,012 (1997—$256,223) relate to administrative costs for the conveyance of the properties to the City of Toronto.

In 1997, deferred development costs of approximately $2.1 million were written off. These costs relate primarily to three development properties which have been conveyed to the City of Toronto during that year.

7. Contributions to Harbourfront Foundation

The Harbourfront Foundation is a charitable foundation that was formed to receive funds and make ongoing contributions to support the public programming activities of Harbourfront Centre.

As approved by Treasury Board and reflected in the statement of operations, the Corporation has retained ownership of the following two properties but contractually assigned the related net revenues to Harbourfront Foundation:

- Net parking income from YQ4 for the period October 1, 1996 to March 31, 2001; and
- Net commercial income from BQ7 for the period October 1, 1996 to March 31, 2001.

Similarly, the Corporation has assigned to Harbourfront Foundation net commercial income of $455,000 per year from the Queens Quay Terminal Building for the period October 1, 1996 to July 6, 2080. This assignment has a fair value of approximately $7 million.

However, as the Corporation sold its reversionary interest in Queens Quay Terminal Building in November 1997 for net proceeds of $786,000, the Corporation does not recognize net commercial income and contribution expense associated with the Queens Quay Terminal Building.

8. Contingencies

As a result of agreements entered into by the Corporation providing for land conveyances and exchanges, the Corporation is contractually obligated for certain contingent liabilities concerning capital projects, payments to the City for parks development, road costs environmental costs and other indemnities. The Corporation, pursuant to an Implementation Agreement with the City of Toronto, is required to pay $13.5 million when the two remaining properties are sold. The Corporation expects to sell the two remaining properties by the year 2000.

The Corporation is a defendant in certain lawsuits. In the opinion of management, these actions will not have a material adverse effect on the financial position of the Corporation.

9. Reclassification of comparative figures

Certain 1997 comparative figures have been reclassified to conform with the presentation adopted in 1998.

ROYAL CANADIAN MINT

MANAGEMENT REPORT

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles in Canada and the integrity and objectivity of the data in these financial statements are Management's responsibility.

Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Royal Canadian Mint Act* and by-laws of the corporation.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The corporation's external auditor, the Auditor General of Canada, audits the financial statements and reports to the Minister responsible for the Royal Canadian Mint.

Danielle V. Wetherup
President and Master of the Mint

Beverley A. Lepine
Vice-President, Administration and Finance

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

I have audited the balance sheet of the Royal Canadian Mint as at December 31, 1997 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Royal Canadian Mint Act* and the by-laws of the corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 20, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term investments		1,203
Accounts receivable	20,249	8,414
Prepaid expenses	924	1,402
Inventories (Note 3)	37,697	27,975
	58,870	38,994
Capital assets (Note 4)	46,662	46,485
	105,532	85,479

LIABILITIES	1997	1996
Current		
Bank indebtedness	3,768	
Accounts payable	19,126	17,713
Current portion of loans (Note 5)	1,022	76
Deferred revenues	2,258	1,358
	26,174	19,147
Long-term		
Loans (Note 5)	9,000	22
Provision for employee termination benefits	5,566	5,465
	14,566	5,487
SHAREHOLDER'S EQUITY		
Share capital (authorized and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	24,792	20,845
	64,792	60,845
	105,532	85,479

Approved by Management:

DANIELLE V. WETHERUP
President and Master of the Mint

BEVERLEY A. LEPINE
Vice-President, Administration and Finance

Approved on behalf of the Board of Directors:

DR. JOSE A. BLANCO
Chairman

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1997

(in thousands of dollars)

	1997	1996
Revenues	425,793	316,861
Cost of goods sold	373,697	278,154
Gross profit	52,096	38,707
Other expenses		
Marketing and sales	28,202	22,664
Administration	13,540	11,526
Depreciation	6,295	3,135
	48,037	37,325
Income from operations	4,059	1,382
Interest income	205	391
Interest expense	(151)	(110)
Income before income tax	4,113	1,663
Income tax (Note 6)	166	135
Net profit	3,947	1,528
Retained earnings, beginning of year	20,845	19,317
Retained earnings, end of year	24,792	20,845

STATEMENT OF CHANGE IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1997

(in thousands of dollars)

	1997	1996
Operating activities		
Net profit	3,947	1,528
Item not affecting funds		
Depreciation	6,295	3,135
	10,242	4,663
Net change in non-cash working capital	(18,766)	8,955
Increase (decrease) in provision for employee termination benefits	101	(304)
	(8,423)	13,314
Investing activities		
Additions to capital assets (net)	(6,472)	(5,628)
Financing activities		
Repayment of loans from Canada	(76)	(76)
Other loans	10,000	(3,021)
	9,924	(3,097)
Increase (decrease) in cash	(4,971)	4,589
Cash and short-term investments (bank indebtedness), beginning of year	1,203	(3,386)
Cash and short-term investments (bank indebtedness), end of year	(3,768)	1,203

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1997

1. Authority and objectives

The Mint was incorporated in 1969 by the *Royal Canadian Mint Act* and is an agent corporation of Her Majesty named in Part II of Schedule III to the *Financial Administration Act*. The objectives of the Mint are to mint coins in anticipation of profit and to carry out other related activities.

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and the terms and conditions, but the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed $50 million.

2. Significant accounting policies

(a) Inventories

Raw materials and supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method. Work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined by the average cost method.

(b) Capital assets

Capital assets are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2 1/2%
Buildings	2 1/2%
Equipment	10%
Hardware and software	20%

(c) Deferred revenues

Payments received in advance on sales are not recognized as revenue until the products are shipped.

(d) Employee termination benefits

Employees are entitled to specific termination benefits as provided under their collective agreement and terms of employment. The liability for these benefits is charged to income as benefits accrue to the employees.

(e) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The corporation's contributions to the Plan are limited to an amount equal to the employees' contributions on account of current services and are charged to operations on a current basis. The corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Inventories

	1997	1996
	(in thousands of dollars)	
Raw materials	20,751	13,310
Work in process	7,266	7,641
Finished goods	6,813	4,406
Supplies	2,867	2,618
	37,697	27,975

In order to facilitate the production of precious metal coins, the Mint borrows the quantity of gold, platinum and silver required and pays interest based on the value of these metals established on the commodity markets. As at December 31, 1997, 162,573 ounces of gold, 1,114,419 ounces of silver and 3,623 ounces of platinum (1996—91,095 ounces of gold, 756,166 ounces of silver and 2,448 ounces of platinum) were borrowed and are not reflected in these statements.

4. Capital assets

			1997	1996
	Cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars			
Land	3,226		3,226	3,226
Land improvements	914	669	245	259
Buildings	45,110	16,667	28,443	29,085
Equipment	44,555	30,679	13,876	11,279
Hardware and software	5,008	4,136	872	2,636
	98,813	52,151	46,662	46,485

5. Loans

The long-term loan of $10 million bears interest at a rate of 5.925% per annum and the principal is repayable in ten installments of $1 million per year.

6. Income tax

The corporation's 1997 income tax relates solely to the large corporations tax. The corporation's expected income tax rate is the net federal statutory rate (including surtax) of 39.12% less the manufacturing and processing deduction of 7.0%. The 1997 and 1996 effective tax rates are zero, exclusive of the large corporations taxes, due to the losses realized in each of the years. The corporation has income tax losses of approximately $0.1 million (1996—$5.5 million) the benefits of which have not been recognized, and which are available to reduce taxes payable for years up to 2002. In addition, the corporation has differences between the tax and accounting values of the assets, largely existing at the date it became subject to income tax, for which future deductions are available in the amount of approximately $27.7 million (1996—$25.6 million). The corporation is not subject to provincial income taxes.

7. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada owned entities. The corporation enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. Transactions with the Department of Finance related to the production and delivery of Canadian circulation coins are generally carried out on a cost plus basis.

8. Short-term investments and other financial instruments

The corporation uses financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in foreign exchange and metal prices. At year end, the nominal value of the corporation's foreign exchange forward contracts, all maturing in 1998, totalled $11 million (1996—$4 million) and approximated the fair market value. Precious metal options worth $13 million were purchased to offset the exposure in options issued by the corporation. These options expire in the year 2000. Gains or losses on these financial instruments are recognized in earnings over the period when the hedged items are recognized in earnings. In accordance with the corporation's investment policy, all counterparties for investments and other financial instruments are rated R-1 low or better by the Dominion Bond Rating Service or AA or better by Moody's Investors Service.

SAINT JOHN PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE
MINISTER OF TRANSPORT

We have audited the balance sheet of the Saint John Port Corporation as at December 31, 1997 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Ernst & Young
Chartered Accountants

Saint John, Canada
January 22, 1998

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash	361	122
Investments (Note 3)	11,526	7,922
Accounts receivable	1,421	2,608
	13,308	10,652
Long-term		
Long-term investments (Note 3)	986	983
Fixed assets (Note 4)	56,976	57,879
	57,962	58,862
Total assets	71,270	69,514

LIABILITIES AND EQUITY OF CANADA	1997	1996
Current		
Accounts payable and accrued charges	4,564	2,146
Dividend payable (Note 10)	91	
Deferred revenues	148	2,523
Grants in lieu of municipal taxes	708	551
	5,511	5,220
Long-term		
Accrued employee benefits	428	367
	5,939	5,587
EQUITY OF CANADA		
Contributed capital (Note 6)	61,659	61,659
Retained earnings	3,672	2,268
	65,331	63,927
Total liabilities and equity of Canada	71,270	69,514

See accompanying notes.

On behalf of the Board:

PETER S. GLENNIE
Chairman

ALWYN G. SOPPITT
President and Chief Executive Officer

STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1997	1996
Revenues from operations	12,089	13,456
Expenses		
Operating and administrative	8,986	8,945
Depreciation	1,627	1,595
Grants in lieu of municipal taxes	425	705
Gain on disposal of fixed assets		(15)
	11,038	11,230
Income from operations	1,051	2,226
Investment income	444	433
Interest expense		(524)
	444	(91)
Net income	1,495	2,135
Retained earnings, beginning of year	2,268	133
	3,763	2,268
Dividend (Note 10)	91	
Retained earnings, end of year	3,672	2,268

See accompanying notes.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1997	1996
Cash provided by (used in)		
Operations		
Net income	1,495	2,135
Add items not requiring a cash payment		
Depreciation	1,627	1,595
Gain on disposal of fixed assets		(15)
Other	61	(165)
	3,183	3,550
Net change in non-cash working capital balances (Note 7)	1,387	1,931
	4,570	5,481
Financing		
Forgiveness of long-term debt		37,749
Addition to contributed capital		(37,749)
Investing		
Additions to fixed assets	(724)	(343)
Long-term investments	(3)	(3)
Proceeds on disposal of fixed assets		15
	(727)	(331)
Increase in cash	3,843	5,150
Cash position, beginning of year	8,044	2,894
Cash position, end of year	11,887	8,044

Cash position consists of cash and short-term investments.
See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. *Canada Ports Corporation Act* and incorporation

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was incorporated under the laws of Canada effective at the closing of business on December 31, 1986 and commenced operations January 1, 1987.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation - Port of Saint John.

2. Significant accounting policies

Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational using rates as follows:

Assets	Depreciation rates %
Dredging	2.5-6.7
Berthing structures	2.5-10.0
Buildings	2.5-10.0
Utilities	3.3-10.0
Roads and surfaces	2.5-10.0
Machinery and equipment	5.0-100.0
Office furniture and equipment	20.0

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay and annual leave which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

Investments are direct and guaranteed securities of Canada as follows:

	1997		1996	
	Amortized cost	Face value	Amortized cost	Face value
	(in thousands of dollars)			
Canada Treasury Bills	11,526	11,617	7,922	7,969
Canada Bonds	986	1,000	983	1,000

4. Fixed assets

	1997		1996	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	(in thousands of dollars)			
Land	31,755		31,755	
Dredging	1,739	1,599	1,739	1,594
Berthing structures	48,910	36,692	48,861	36,154
Buildings	16,192	7,613	16,163	7,242
Utilities	7,591	5,604	7,438	5,421
Roads and surfaces	7,716	5,857	7,216	5,497
Machinery and equipment	1,120	823	1,120	713
Office furniture and equipment	1,388	1,293	1,358	1,236
Work under construction	46		86	
	116,457	59,481	115,736	57,857
Accumulated depreciation	59,481		57,857	
Net book value	56,976		57,879	

5. Forgiveness of long-term debt

In 1996, term loans in the amount of $18,052,457 from Canada, bearing interest at 11% to 12.43% maturing between December 31, 1998 and 2005, were forgiven under *The Supplementary Estimates and the Appropriation Act*.

Also in 1996, the balance of a loan in the amount of $19,696,119 provided by the Province of New Brunswick, the repayment of which had been linked to the net operating income of Rodney Terminal Complex, was forgiven by the New Brunswick Transportation Authority.

Forgiveness of the two loans was credited to contributed capital.

6. Adjustment to contributed capital

	1997	1996
	(in thousands of dollars)	
Contributed capital, beginning of year	61,659	23,910
Forgiveness of debt from Canada (Note 5)		18,053
Forgiveness of debt from the Province of New Brunswick (Note 5)		19,696
Contributed capital, end of year	61,659	61,659

7. Net change in non-cash working capital balances

	1997	1996
	(in thousands of dollars)	
Decrease (increase) in current assets		
Accounts receivable	1,187	(1,485)
	1,187	(1,485)
Increase (decrease) in current liabilities		
Accounts payable and accrued charges	2,418	1,076
Deferred revenues	(2,375)	2,380
Grants in lieu of municipal taxes	157	(40)
	200	3,416
	1,387	1,931

8. Related party transactions

During the year the Corporation paid $286,162 (1996—$389,094) to Canada Ports Corporation as its share of that Corporation's head office expense.

9. Transportation system review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act*. At this time, the impact upon the Corporation is not known.

10. Commitments

In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation is required to pay a dividend, in respect to 1997, based on a method of calculation using net earnings. This dividend, payable before March 31, 1998, amounts to approximately $91,446 for 1997 and has been applied against retained earnings.

ST. JOHN'S PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the balance sheet of St. John's Port Corporation as at December 31, 1997 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

St. John's, Canada
February 6, 1998

BALANCE SHEET AS AT DECEMBER 31

ASSETS	1997	1996
	$	$
Current		
Cash	54,368	40,800
Investments (Note 3)	6,080,160	5,202,391
Accounts receivable	577,541	537,485
	6,712,069	5,780,676
Fixed (Note 4)	11,413,533	11,779,103
	18,125,602	17,559,779

LIABILITIES	1997	1996
	$	$
Current		
Accounts payable and accrued liabilities	376,087	300,801
Grants in lieu of municipal taxes	126,777	167,226
Deferred revenues	152,046	157,143
	654,910	625,170
Accrued employee benefits	186,034	231,731
	840,944	856,901
EQUITY OF CANADA		
Contributed capital	10,131,636	10,131,636
Surplus	7,153,022	6,571,242
	17,284,658	16,702,878
	18,125,602	17,559,779

See accompanying notes to the financial statements.

On behalf of the Board:

MELVIN WOODWARD
Chairman of the Board

DAVID J. FOX, P. Eng.
Port Manager and Chief Executive Officer

STATEMENT OF EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31

	1997	1996
	$	$
Revenues from operations	3,170,094	3,084,430
Operating and administrative expenses	2,115,296	1,762,739
Depreciation	620,263	848,424
Grants in lieu of municipal taxes	68,448	129,777
	2,804,007	2,740,940
Earnings from operations	366,087	343,490
Investment income	226,600	265,584
Net earnings	592,687	609,074
Surplus, beginning of year	6,571,242	5,962,168
Net earnings	592,687	609,074
Dividend to Canada	(10,907)	
Surplus, end of year	7,153,022	6,571,242

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31

	1997	1996
	$	$
Cash derived from (applied to)		
Operating		
Net earnings	592,687	609,074
Depreciation	620,263	848,424
Other non-cash items	(45,697)	29,193
	1,167,253	1,486,691
Change in non-cash operating working capital (Note 5)	78,100	5,054
	1,245,353	1,491,745
Financing		
Change in construction payables	(88,416)	115,014
Dividend to Canada	(10,907)	
	(99,323)	115,014
Investing		
Purchase of fixed assets	(263,838)	(631,210)
Disposal of fixed assets	9,145	1,000
	(254,693)	(630,210)
Net increase in cash	891,337	976,549
Cash and short-term investments		
Beginning of year	5,243,191	4,266,642
End of year	6,134,528	5,243,191

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Local port corporation

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

In accordance with the *Canada Ports Corporation Act* the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation - Port of St. John's to the St. John's Port Corporation.

2. Summary of significant accounting policies

Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

Fixed assets

Fixed assets are recorded at cost, except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation

Depreciation is recorded on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates as follows:

Dredging	2.5%
Berthing structures	2.5-10%
Buildings	2.5-10%
Utilities	3.3-10%
Roads and surfaces	2.5-10%
Machinery and equipment	5-100%
Office furniture and equipment	20-33.3%

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works and Government Services Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. Investments

	1997		1996	
	Amortized cost	Face amount	Amortized cost	Face amount
	$	$	$	$
Short-term	6,080,160	6,182,000	5,202,391	5,311,000

4. Fixed assets

			1997	1996
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	5,244,905		5,244,905	5,090,796
Dredging	19,500	975	18,525	19,013
Berthing structures	11,277,062	7,970,457	3,306,605	3,468,126
Buildings	1,427,690	1,017,725	409,965	384,757
Utilities	3,540,878	1,974,779	1,566,099	1,696,174
Roads and surfaces	4,019,840	3,370,685	649,155	728,650
Machinery and equipment	360,321	217,200	143,121	143,408
Office furniture and equipment	276,022	250,864	25,158	30,937
Projects under construction	50,000		50,000	217,242
	26,216,218	14,802,685	11,413,533	11,779,103

5. Change in non-cash operating working capital

	1997	1996
	$	$
Accounts receivable	(40,056)	4,449
Accounts payable and accrued liabilities	163,702	(64,614)
Grants in lieu of municipal taxes	(40,449)	49,062
Deferred revenues	(5,097)	16,157
	78,100	5,054

6. Related party transactions

During the year the Corporation paid $87,244 (1996—$67,444) to Canada Ports Corporation as its share of that Corporation's head office expense.

7. Marine policy review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act*. At this time, the impact upon the Corporation is not known.

THE ST. LAWRENCE SEAWAY AUTHORITY

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of The St. Lawrence Seaway Authority and all information in this annual report are the responsibility of management.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the annual report is consistent, where applicable, with that contained in the consolidated financial statements.

To meet management's responsibility and to assure the integrity and reliability of financial reporting, the Authority maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded.

The system of internal control is supplemented by an internal audit which conducts periodic reviews of different aspects of the Authority's operations. In addition, our external auditors have full and free access to the members of the Authority, who oversee management's responsibility for maintaining adequate control systems and the quality of financial reporting.

The Auditor General of Canada is responsible for auditing the consolidated financial statements and for issuing his report thereon.

Carol Lemelin
Comptroller and Treasurer

Michel Fournier
President and CEO

Cornwall, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the consolidated balance sheet of The St. Lawrence Seaway Authority as at March 31, 1998 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, The *St. Lawrence Seaway Authority Act* and regulations, and the by-laws of the Authority.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 1, 1998

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1998
(in thousands of dollars)

ASSETS	1998	1997
Current		
Cash and short-term investments (Note 3)	30,383	36,256
Accounts receivable (Note 4)	5,686	4,951
Accrued interest receivable	1,567	1,043
Supplies inventory	2,547	2,673
	40,183	44,923
Long-term		
Investments (Note 3)	57,444	59,581
Mortgages receivable (Note 5)	1,036	1,055
Advance to a co-venturer (Note 6)	474	567
Investments in non-consolidated wholly-owned subsidiaries (Note 7)	2	2
Capital assets (Note 8)	514,751	503,721
	613,890	609,849

LIABILITIES	1998	1997
Current		
Accounts payable and accrued liabilities (Note 4)	18,175	12,966
Provision for the Departure Incentive Program (Note 10)	3,951	
Accrued employee termination benefits	2,747	661
Provision and accrued charges for abandonment of railway bridges	627	4,317
Large corporations tax payable	36	25
	25,536	17,969
Long-term		
Accrued employee termination benefits	11,596	13,720
	37,132	31,689
Commitments and contingencies (Notes 13 and 14)		
EQUITY OF CANADA		
Contributed capital (Note 9)	624,950	624,950
Deficit	(48,192)	(46,790)
	576,758	578,160
	613,890	609,849

See accompanying notes to the consolidated financial statements.

Approved:

M. FOURNIER
President and CEO

C. LEMELIN
Comptroller and Treasurer

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998				1997
	Seaway	Seaway International Bridge	Thousands Islands Bridge	Total	Total
Revenues					
Tolls	74,058	1,301		75,359	76,679
Leases and licenses	9,193	59	1,181	10,433	7,561
Investment income	4,971	10	391	5,372	6,105
Others	1,212	27	1,638	2,877	3,037
	89,434	1,397	3,210	94,041	93,382
Expenses					
Operations, maintenance and engineering	58,242	905	336	59,483	54,690
Administration	13,969	226	123	14,318	13,999
Amortization	13,309	140	403	13,852	13,197
	85,520	1,271	862	87,653	81,886
Income from operations	3,914	126	2,348	6,388	11,496
Departure Incentive Program (Note 10)	(4,881)			(4,881)	
Commercialization costs (Note 11)	(1,115)			(1,115)	(533)
Abandonment of railway bridges	(492)			(492)	(6,719)
Income (loss) before taxes	(2,574)	126	2,348	(100)	4,244
Taxes (Note 12)	1,250		52	1,302	1,309
Net income (loss) for the year	(3,824)	126	2,296	(1,402)	2,935

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998				1997
	Seaway	Seaway International Bridge	Thousands Islands Bridge	Total	Total
Retained earnings (deficit), beginning of year	(70,934)		24,144	(46,790)	(49,725)
Net income (loss) for the year	(3,824)	126	2,296	(1,402)	2,935
Distribution of Joint Venture net income	126	(126)			
Retained earnings (deficit), end of the year	(74,632)		26,440	(48,192)	(46,790)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1998
(in thousands of dollars)

	1998				1997
	Seaway	Seaway International Bridge	Thousands Islands Bridge	Total	Total
Operating activities					
Cash provided from operations					
Net income (loss) for the year	(3,824)	126	2,296	(1,402)	2,935
Items not requiring cash					
Amortization	13,309	140	403	13,852	13,197
Employee termination benefits	1,163	13		1,176	992
Gain on disposal of capital assets	(15)			(15)	(253)
Abandonment of railway bridges					255
Operating cash flow	10,633	279	2,699	13,611	17,126
Net change in working capital components other than cash short-term investments and accrued termination benfits	4,023	77	248	4,348	6,336
Payments of employee termination benefits	(1,211)	(3)		(1,214)	(880)
Cash provided by operating activities	13,445	353	2,947	16,745	22,582
Internal transfers	(11,724)	(158)	11,882		
	1,721	195	14,829	16,745	22,582
Investing activities					
Decrease (increase) in investments	2,137			2,137	(1,882)
Decrease (increase) in mortgage receivables	19			19	(72)
Decrease in advance to a co-venturer	93			93	8
Acquisitions of capital assets	(10,194)	(24)	(14,829)	(25,047)	(11,449)
Proceeds from disposal of capital assets	180			180	364
Cash used in investing activities	(7,765)	(24)	(14,829)	(22,618)	(13,031)
Increase (decrease) in cash	(6,044)	171		(5,873)	9,551
Cash and short-term investments at beginning of year	36,130	126		36,256	26,705
Cash and short-term investments at end of year	30,086	297		30,383	36,256

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1998

1. The Authority

(a) Authority and objectives

The St. Lawrence Seaway Authority (the Authority) was established in 1954 under the *St. Lawrence Seaway Authority Act* and is classified as a parent Crown corporation under Schedule III Part I of the *Financial Administration Act*.

The Authority was established to construct and operate a deep waterway between the Port of Montreal and Lake Erie together with such works and other property, including bridges incidental to the deep waterway, as deemed necessary by the Governor in Council.

The *St. Lawrence Seaway Authority Act* confers upon the Authority the powers to borrow money and to produce revenue by levying tolls for the use of the deep waterway. The tolls that may be charged shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to the Authority of its operations in carrying out the purposes for which it is incorporated, which costs shall include:

i) payments in respect to the interest on amounts borrowed by the Authority to carry out those purposes;

ii) amounts sufficient to amortize the principal of those amounts over a period not exceeding fifty years; and

iii) the cost of operating and maintaining the canals and works under the administration of the Authority, including all operating costs of the Authority and such reserves as may be approved by the Minister.

Under the *St. Lawrence Seaway Authority Act*, tolls may be established by filing with the Canadian Transportation Agency or by agreement between Canada and the United States. This agreement between the two countries is in the form of an exchange of notes in accordance with directions given by the Governor in Council.

(b) Commercialization of the St. Lawrence Seaway System

In October 1997, the Government introduced Bill C-9, the *Canada Marine Act*, to implement the National Marine Policy which provides, among other elements, for the commercialization of The St. Lawrence Seaway Authority. On May 1, 1998, the Bill was still under study by the Senate. If passed, the Bill will give the Minister of Transport the powers and means to proceed with the commercialization of the operations of the Seaway and the dissolution of the Authority on the date to be fixed by the Governor in Council.

It is too early to determine all the implications of the above. However, it is expected that the Authority will be dissolved while the Seaway operations will be carried out by a not-for-profit organization (the Users Group) and its assets transferred to the Minister or to a person to be designated by the Minister.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A summary of significant accounting policies follows:

(a) Basis of consolidation

The consolidated financial statements include the accounts of The St. Lawrence Seaway Authority and the Authority's proportionate share of its interest in the accounts of its joint venture, The Seaway International Bridge Corporation, Ltd. The Authority holds a 50% interest in The Seaway International Bridge Corporation, Ltd., and as a result is entitled to 50% of the assets of the joint venture, its liabilities and of its net income.

The Authority's investments in two other wholly-owned subsidiaries for purposes of the *Financial Administration Act*, The Jacques Cartier and Champlain Bridges Incorporated and Great Lakes Pilotage Authority, Ltd., are recorded at cost because the Authority does not have the right and ability to obtain benefits from their resources and the Authority is not exposed to their related risks.

(b) Basis of presentation of operations

In these consolidated financial statements, the maritime operations of the Seaway system, those of the Seaway International Bridge as well as those of the Thousand Islands Bridge have been presented separately in order to preserve their distinct results.

Thousand Islands Bridge.

In September 1976, the Minister of Transport entrusted the Authority with the management and operation of the Thousand Islands Bridge, while the real property was vested in the name of Her Majesty in right of Canada. Subsequent capital expenditures made by the Authority to improve the Bridge have been recorded as capital assets. The retained earnings of the Bridge represent its cumulative earnings since September 1976.

(c) Short-term investments

Short-term investments are recorded at cost.

(d) Supplies inventory

Supplies inventory comprises equipment and supplies used in the operation and maintenance of the Seaway and are recorded at the average cost.

(e) Capital assets

Capital assets are recorded at cost. Replacements and major improvements which increase the capacity of the deep waterway system or extend the estimated useful service lives of existing assets are capitalized. Repairs and maintenance are charged to operations as incurred. The cost of assets sold, retired, or abandoned, and the related accumulated amortization are removed from the accounts on disposal. Gains or losses on disposals are credited or charged to operations.

Amortization is recorded using the straight-line method based on the estimated useful service lives of the assets.

(f) Welland Canal and Valleyfield Bridge rehabilitation programs

Funding received from the Government of Canada for these programs was accounted for by crediting the amount against the costs of related capital projects undertaken during the year. The non-funded remaining cost, which is to be recovered from the users, is capitalized and amortized.

(g) Employee termination benefits

Employees of the Authority are entitled to specified benefits as provided for under labour contracts and conditions of employment. These benefits include accumulated sick leave and furlough leave which are payable upon termination. Usually, the termination benefits correspond to the higher of a week's salary (two weeks for the first year of service) for each year of service up to a maximum of 28 weeks or 75% of the balance of the employee's accumulated sick leave days. Employees are allowed 15 days of sick leave per year. The liability at year-end for these benefits is recorded in the accounts as the benefits accrue to employees.

(h) Pension plan

All employees of the Authority are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(i) Retired employee benefits

The Authority provides a life and major medical insurance plan for its retired employees. Contributions to the plan are required from participant retired employees. The Authority pays for the excess of the cost of the plan over the participants' contributions and this excess is recorded in the accounts in the year it is incurred.

3. Investments

The Authority invests in short-term deposits, Government of Canada Treasury bills, Government of Canada bonds, Canadian chartered banks investment certificates and has two deposits with the Consolidated Revenue Fund of the Government of Canada. The carrying value of these investments approximates their fair value. A portion of these investments, totalling $29.5 million (1997—$38.5 million) are maturing within a year and carry interest at rates varying from 3.9% to 4.6% (1997—2.9% to 3.3%) are presented with the cash at year-end.

The Authority has set aside the remainder of its short and long-term investments in order to provide for the future:

	1998	1997
	(in thousands of dollars)	
Operating requirements		
Government of Canada Treasury bills maturing within one year with various interest rates between 4.9% and 5.1% (1997—2.9% and 3.9%)	8,861	16,581
Government of Canada bonds, 7.5% interest, maturing in 2001 and 2002	14,083	
Investment certificates with various maturity dates between 1 and 4 years and with interest rates varying between 4.7% and 9.7%	23,000	30,000
	45,944	46,581
Employee termination benefits		
Deposits with Consolidated Revenue Fund with interest rates of 8.12% and 8.34% (same in 1997) and maturing in 1998 and 2000	11,500	13,000
	57,444	59,581

4. Accounts receivable, accounts payable and accrued liabilities

These accounts are incurred in the normal course of business. They are usually receivable or payable within a month and are non-interest bearing. The carrying amount of each approximates fair value.

5. Mortgages receivable

The Authority has entered into long-term mortgages for the sale of parcels of land. The mortgages are issued for a 3-year term, they carry interest at rates varying from 8% to 9.5%, are amortized over a maximum period of 22 years and are recoverable in monthly instalments. Their carrying value approximates fair value. The current receivable portion of mortgages aggregating $20,012 is included in the accounts receivable.

6. Advance to a co-venturer

This account represents the excess of the Authority's investment in its joint venture, The Seaway International Bridge Corporation, Ltd., over its required contribution as per the contractual agreement. The advance carries interest at the average one-year Treasury bill and has no repayment terms. Its carrying value approximates fair value.

7. Investments in non-consolidated wholly-owned subsidiaries and related party transactions

Investments consist of the following:

	No. of shares	Cost
		$
Great Lakes Pilotage Authority, Ltd. (GLPA)	15	1,500
The Jacques Cartier and Champlain Bridges Incorporated (JCCBI)	1	100
		1,600

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

During the year ended March 31, 1998, the Authority provided certain engineering and administrative services to JCCBI for which it charged $364,019 (1997—$653,201). Charges are made on full cost recovery basis. At March 31, 1998, the amount receivable from JCCBI totalled $81,291 (1997—$116,041) and is included in the accounts receivable.

The Canadian Coast Guard introduced new navigational services fees based on the Authority's vessel fleet. The fees for this service during the year amounted to $220,061 (1997—$69,981).

8. Capital assets

	1998				1997			
	Amortization rate	Cost	Accumulated amortization	Net	Amortization rate	Cost	Accumulated amortization	Net
				(in thousands of dollars)				
Seaway								
Land		28,131		28,131		28,199		28,199
Channels and canals	1%	280,498	112,463	168,035	1%	280,033	109,379	170,654
Locks	1%	235,869	97,665	138,204	1%	230,736	93,976	136,760
Bridges and tunnels	2-4%	125,152	67,667	57,485	2-4%	125,142	64,327	60,815
Buildings	2%	15,826	9,333	6,493	2%	15,254	8,969	6,285
Equipment	2-20%	32,370	24,757	7,613	2-20%	30,813	23,759	7,054
Remedial works	1%	121,019	35,028	85,991	1%	121,019	33,796	87,223
Work under construction		2,020		2,020		262		262
		840,885	346,913	493,972		831,458	334,206	497,252
Seaway International Bridge								
Equipment	5-20%	547	426	121	5-20%	523	384	139
Building	5-10%	34	11	23	5-10%	34	10	24
Remedial works/Deferred major repairs	4.8-10%	992	391	601	4.8-10%	992	294	698
		1,573	828	745		1,549	688	861
Thousand Islands Bridge								
Improvements	2-10%	22,054	2,020	20,034	2-10%	7,225	1,617	5,608
Total		864,512	349,761	514,751		840,232	336,511	503,721

Welland Canal rehabilitation program

In 1986, the Authority undertook a seven-year $175 million rehabilitation program to refit the Welland Canal and ensure a continued safe and reliable waterway into the 21st century. The program consisted of refurbishing the lock walls, stabilizing the canal banks and approach walls, and rehabilitating ancillary structures. The program was completed in 1993. The Government of Canada provided all the funding for the Program, and as a result, the funding of $175 million has been deducted from the cost of related rehabilitation works.

Valleyfield Bridge rehabilitation program

In 1987, Hydro-Quebec undertook a rehabilitation program for the Valleyfield Bridge. The Authority's share of the cost of the rehabilitation works was 25% of the total cost; the remainder being Hydro-Quebec's responsibility. In 1992, the Treasury Board decided that the Authority would only be responsible for $17.8 million of the cost of the works, representing the Authority's 25% share in the cost of the works completed up to March 31, 1992, and that its share of the cost incurred after that date would be funded by the Government of Canada. All work was completed at March 31, 1993 and the costs to be funded by the Government of Canada amounted to $8.4 million. Only the portion of $17.8 million funded by the Authority has been capitalized in the accounts.

9. Contributed capital

As of April 1, 1977, loans from Canada of $624.95 million were converted to equity by parliamentary appropriation. This amount was recorded as contributed capital. The parliamentary appropriation authorizing the 1977 conversion of loans from Canada to equity also authorized the Minister to fix, from time to time, the amount that shall be paid by the Authority annually out of its toll revenue as a return on capital. No return on capital has ever been required to be paid since then.

10. Departure incentive program

During the year, the Authority adopted a staff reduction program. The Authority anticipates that full implementation of that program should be completed in 1998-99. The total cost of the program has been estimated at about $5 million and has been recorded in the accounts in the current year.

11. Commercialization costs

The Authority participated fully in the negotiations with Transport Canada and the Users Group for the commercialization of the St. Lawrence Seaway System (Note 1 (b). The commercialization costs also include the cost of studies for the setting up of the not-for-profit public/private partnership and for the potential revision of the employees' pension plan.

12. Taxes

The Authority, as a prescribed Federal Crown corporation, is subject to the provisions of the *Income Tax Act*. Taxes include income tax (38% of income) and the large corporations tax. The Authority is not subject to any provincial income taxes. Taxes for the year are summarized as follows:

Description	1998	1997
	(in thousands of dollars)	
Income tax		1,600
Large corporations tax	1,302	1,309
Sub-total	1,302	2,909
Decrease of income tax arising from the carry-over of prior years' losses		1,600
Net taxes (large corporations tax)	1,302	1,309

At the end of the year, unamortized capital cost for tax purposes is in excess of the net book value of capital assets by approximately $215 million. The potential future tax reduction arising from these timing differences has not been recorded in the accounts of the Authority. Further, the Authority also has a deductible loss of $6 million expiring in 2002, which is available to reduce the taxable income of future years.

13. Commitments

At March 31, 1998, contractual obligations for capital and other expenditures amounted to $3.1 million (1997—$15.8 million).

14. Contingencies

There is a total of $39 million in claims instituted against the Authority. The claims arise from the October 1985 Lock 7 wall blow-out, compensation and damages in connection with the expropriation of lands and various other claims. The Authority is contesting all these claims and their outcome cannot be determined at this time although management is of the opinion that these actions will not result in any material losses to the Authority. The Authority is also the claimant in certain other pending or threatened claims and lawsuits.

Decontamination could be needed for some of the Authority's properties. To date, the Authority has not been in a position to determine the related costs, not having assessed its properties' contamination status.

15. Required future funding for major restoration of infrastructure

The anticipated amount of funds that should be provided by operating activities over the next five years will most likely not be sufficient to finance the anticipated major restoration projects of the Authority's infrastructure over that period. The Authority will need to use a significant portion of its long-term investments to cover the excess costs of these projects over the funds generated by its operating activities. Beyond that period, and in the event of the continuance of that trend, the Authority may require outside financing of these projects.

16. Comparative figures

Some of the 1997 comparative figures were reclassified to conform to the presentation adopted in 1998.

APPENDIX 1

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED

MANAGEMENT'S REPORT

The accompanying financial statements of The Jacques Cartier and Champlain Bridges Incorporated and all information in this annual report are the responsibility of management.

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgement. Information contained elsewhere in the annual report is consistent, where applicable, with that contained in the financial statements.

To meet management's responsibility and to assure the integrity and reliability of financial reporting, the Corporation maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded.

The system of controls is supplemented by an audit which consists of periodic reviews of different aspects of the Corporation's operations. The external auditor has full and free access to the directors, who oversee management's responsibility for maintaining adequate control systems and the quality of financial reporting.

The Auditor General of Canada is responsible for auditing the financial statements and for issuing his report thereon.

Glen P. Carlin
General Manager

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of The Jacques Cartier and Champlain Bridges Incorporated as at March 31, 1998 and the statements of operations, deficit, contributed capital and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
April 24, 1998

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

BALANCE SHEET AS AT MARCH 31

ASSETS	1998	1997	LIABILITIES	1998	1997
	$	$		$	$
Current			Current		
Cash and term deposits	2,998,975	2,880,516	Accounts payable	4,318,576	2,955,061
Accounts receivable	712,276	269,622	Due to parent company	70,637	116,041
Due from Canada	4,082,475	3,380,335	Deferred revenues	212,997	267,855
	7,793,726	6,530,473		4,602,210	3,338,957
Capital assets			Long-term		
Land	3,678,846	3,678,846	Provision for employee termination benefits	376,369	347,695
Bridges	73,321,602	73,321,602		4,978,579	3,686,652
Vehicles and equipment	1,321,640	1,305,513			
	78,322,088	78,305,961			
Less: accumulated amortization	69,719,733	68,582,777	Commitments and contingencies (Notes 5 and 6)		
	8,602,355	9,723,184			
			SHAREHOLDER'S EQUITY		
			Capital stock		
			Authorized—50 shares without par value		
			Issued and fully paid—1 share	100	100
			Contributed capital	33,621,904	33,605,777
			Deficit	(22,204,502)	(21,038,872)
				11,417,502	12,567,005
	16,396,081	16,253,657		16,396,081	16,253,657

See accompanying notes to the financial statements

Approved by the Board:

MICHEL FOURNIER
Director

CLÉMENT CÔTÉ
Director

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31

	Jacques Cartier Bridge	Champlain Bridge	Total 1998	Total 1997
	$	$	$	$
Revenues				
Leases and licenses	252,481	207,775	460,256	478,338
Interest	50,498	50,498	100,996	124,640
Other	56,705	119,668	176,373	207,069
	359,684	377,941	737,625	810,047
Expenses				
Maintenance	8,964,271	15,663,041	24,627,312	22,901,152
Operation	1,187,897	2,331,115	3,519,012	3,470,066
Administration	838,424	1,460,774	2,299,198	1,982,484
Amortization	87,592	1,049,364	1,136,956	1,188,633
	11,078,184	20,504,294	31,582,478	29,542,335
GST and QST reimbursements for 1993 to 1997 (Note 4)	1,260,388	2,949,971	4,210,359	
Loss before large corporations tax	9,458,112	17,176,382	26,634,494	28,732,288
Large corporations tax	3,881	3,881	7,762	9,978
Net loss for the year	9,461,993	17,180,263	26,642,256	28,742,266

See accompanying notes to the financial statements.

STATEMENT OF DEFICIT FOR THE YEAR ENDED MARCH 31

	1998	1997
	$	$
Balance at beginning of the year	21,038,872	19,859,448
Net loss for the year	26,642,256	28,742,266
	47,681,128	48,601,714
Parliamentary appropriation for funding excess of operating expenditures over revenues	25,476,626	27,562,842
Balance at end of the year	22,204,502	21,038,872

See accompanying notes to the financial statements.

STATEMENT OF CONTRIBUTED CAPITAL FOR THE YEAR ENDED MARCH 31

	1998	1997
	$	$
Balance at beginning of the year	33,605,777	33,383,335
Parliamentary appropriation for funding net acquisition of capital assets	16,127	222,442
Balance at end of the year	33,621,904	33,605,777

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1998	1997
	$	$
Operating activities		
Net loss for the year	(26,642,256)	(28,742,266)
Non-cash items		
Amortization	1,136,956	1,188,633
Increase (decrease) in the provision for employee termination benefits	28,674	(9,209)
	(25,476,626)	(27,562,842)
Changes in non-cash items of working capital	820,599	400,040
	(24,656,027)	(27,162,802)
Investing activities		
Acquisition of capital assets	(16,127)	(226,772)
Proceeds from the disposal of capital assets		4,330
	(16,127)	(222,442)
Financing activities		
Parliamentary appropriation	25,492,753	27,785,284
Cash and cash equivalents		
Increase for the year	820,599	400,040
Balance at beginning of the year	6,260,851	5,860,811
Balance at end of the year (*)	7,081,450	6,260,851
(*) Cash and term deposits	2,998,975	2,880,516
Due from Canada	4,082,475	3,380,335
	7,081,450	6,260,851
Working capital position at year-end		
Current assets	7,793,726	6,530,473
Current liabilities	4,602,210	3,338,957
	3,191,516	3,191,516

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Authority and activities

The Jacques Cartier and Champlain Bridges Incorporated was established under the *Canada Business Corporations Act* on November 3, 1978 and is a wholly-owned subsidiary of The St. Lawrence Seaway Authority, which is a Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act*.

In October 1997, the Government introduced Bill C-9, the *Canada Marine Act*, which provides, among other things, for the commercialization of the operations of the St. Lawrence Seaway. The Bill is still under study by the Senate. All the implications of the above on The Jacques Cartier and Champlain Bridges Incorporated have not been determined as of this date.

The Corporation is dependent on the Government of Canada for its financing.

Effective December 1, 1978, the Corporation assumed the responsibility for the operation, maintenance and control of the Jacques Cartier and Champlain Bridges and of a portion of the Bonaventure Autoroute, situated in the Montreal area.

2. Significant accounting policies

(a) Parliamentary appropriation

The amount of the parliamentary appropriation used to cover the excess of expenditures over the revenues for the operation of the Jacques Cartier and Champlain Bridges is reflected in the statement of deficit. In this regard, operating expenses do not include amortization, any change in the provision for employee termination benefits and any gain or loss on disposal of capital assets.

The portion of the parliamentary appropriation used to finance the acquisition of capital assets, net of proceeds from disposal, is recorded as contributed capital.

Any balance of the parliamentary appropriation not received at year end is shown as an amount due from Canada. Any parliamentary appropriation received in excess of requirements is recorded as due to Canada. It is the Corporation's policy to reimburse this amount in the following fiscal year.

(b) Capital assets

Capital assets acquired from the National Harbours Board (now Canada Ports Corporation) on December 1, 1978 were recorded at their then book values with an offset to contributed capital. Subsequent additions are recorded at cost.

Capital assets are amortized over their estimated economic lives using the straight-line method, at the following rates:

Jacques Cartier Bridge	4.8%
Champlain Bridge	2.5%
Vehicles and equipment	10% and 20%
Software	100%

The cost of the portion of the Bonaventure Autoroute for which the Corporation is responsible and the initial cost of the Jacques Cartier Bridge are fully amortized.

The cost of major maintenance is charged to operations in the year in which the work is performed.

(c) Deferred revenues

Revenues of leases and licenses collected in advance are recorded as deferred revenues.

(d) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided under their collective agreement and their conditions of employment. The cost of these benefits is expended in the year in which they are earned.

(e) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the Plan. This contribution represents the total liability of the Corporation. Contributions in respect of current services and of admissible past services are expended when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

(f) Expenses—Bonaventure Autoroute

Expenses incurred with respect to the portion of the Bonaventure Autoroute for which the Corporation is responsible are included with those of the Champlain Bridge.

(g) Income taxes

The Corporation, as a federal Crown corporation, is not subject to any provincial income taxes. The Corporation is, however, subject to the provisions of the federal *Income Tax Act* due to the fact that its parent Corporation is subject to these provisions in accordance with a regulation regarding this Act. Therefore the Corporation is subject to the Large Corporations Tax.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998—*Concluded*

(h) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of income and expenses during the reporting period. Employee termination benefits, accrued liabilities for major maintenance repairs and estimates pertaining to claims received from suppliers are the most significant items where estimates are used. Actual results could differ from those estimates.

3. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The main related party transactions entered into by the Corporation are administrative and engineering services received from its parent Corporation for an amount of $364,019 ($496,595 in 1997).

4. GST and QST reimbursements for 1993 to 1997

During the current fiscal year, Revenue Quebec has agreed to revise the status of the Corporation that the latter claimed since 1993. Under this revised status, the Corporation has been reimbursed from Revenue Quebec 57% of the Goods and Services Tax (GST) and 40% of the Quebec Provincial Sales Tax (QST), for the period September 1993 to March 1997.

The decision of Revenue Quebec ends the Corporation's contingency to reimburse the amounts received since the implementation of the GST and QST up to August 1993, totalling $3.5 million.

The current year GST reimbursements were deducted from maintenance expenses. Reimbursements of the Quebec Provincial Sales Tax were abolished in January 1997.

5. Commitments

(a) Operation services

The minimum amount which will be paid in future years under an agreement for police services ending on June 30, 1999 is $3.3 million on an annual basis.

(b) Suppliers

At March 31, 1998, contractual obligations to suppliers amounted to approximately $1.6 million.

6. Contingencies

(a) Various claims and legal proceedings have been asserted or instituted against the Corporation, including some which demand large monetary damages which could result in significant expenditures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimate. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established provisions in the near term.

(b) Decontamination could be required for some of the Corporation's properties. To date, the Corporation has not been in a position to determine the related costs, not having assessed its properties' contamination status. The costs related to the environmental evaluations and to the decontamination are accounted for in the year in which they will be incurred by the Corporation.

7. Major rehabilitation works

In its endeavour to keep the bridges and the autoroute in a good state of repair to protect the public and serve traffic needs throughout the useful life of these installations, the Corporation must undertake major rehabilitation works on the deck of the Jacques Cartier Bridge. Based on engineering studies and on the results of a pilot project undertaken in 1997-98, the Corporation submitted for the approval of the Treasury Board, a turnkey project, planned over a two-year period for the replacement of the deck with prefabricated concrete slabs. The main construction contract should be awarded in 1999 beginning with the fabrication of the deck units. Work for the deck replacement should begin in the spring of 2000 and should be finished in the fall of 2001. The cost of the project is estimated at $121,000,000 excluding the related project management costs which would amount to approximately $2,700,000.

8. Fair value of financial instruments

The transactions related to cash and term deposits, accounts receivable, due from Canada, accounts payable and the amount due to the parent company are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair values because of their short term maturity. There is no concentration of accounts receivable, consequently, the credit risk is low.

APPENDIX 2

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture)

MANAGEMENT REPORT

The accompanying financial statements of The Seaway International Bridge Corporation, Ltd. and all information in this annual report are the responsibility of management.

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the annual report is consistent, where applicable, with that contained in the financial statements.

To meet management's responsibility and to assure the integrity and reliability of financial reporting, the Corporation maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded. The system of internal control is supplemented by an internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board, which is composed of three directors who are not employees of the Corporation.

The Audit Committee meets with management, the internal auditor and the Auditor General of Canada, the external auditor, and also reviews and recommends to the Board the approval of the Corporation's annual financial statements. In addition, the external auditor has full and free access to the directors of the Corporation.

The Auditor General of Canada is responsible for auditing the financial statements and for issuing his report thereon.

Michel Fournier
President

Carol Lemelin
Treasurer

Cornwall, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of The Seaway International Bridge Corporation, Ltd. as at December 31, 1997 and the statements of revenues and expenses and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied of a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *St. Lawrence Seaway Authority Act*, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
April 3, 1998

APPENDIX 2—*Continued*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture) —*Continued*

BALANCE SHEET AS AT DECEMBER 31, 1997

ASSETS	1997	1996	LIABILITIES	1997	1996
	$	$		$	$
Current assets			Current liabilities		
Cash and short-term investments (Note 3)	594,769	251,551	Accounts payable and accrued liabilities (Note 4)	137,136	99,744
Accounts receivable (Note 4)	49,662	62,364	Deferred revenue	119,625	105,884
Goods and Services Tax refundable	10,937	136,580	Ontario sales tax payable		38,538
	655,368	450,495	Clients' deposits	58,773	55,413
				315,534	299,579
Capital assets (Note 5)	351,750	394,352	Due to venturers (Note 7)	335,948	204,950
				651,482	504,529
			Long-term liabilities		
Deferred major repairs (Note 6)	1,138,299	1,326,941	Due to venturers (Note 7)	1,201,471	1,395,065
			Debentures payable (Note 8)	8,000	8,000
			Accrued employee termination benefits	276,464	256,194
				1,485,935	1,659,259
			SHAREHOLDER'S EQUITY		
			Capital stock		
			Authorized—an unlimited number of common shares		
			Issued and fully paid—8 shares	8,000	8,000
	2,145,417	2,171,788		2,145,417	2,171,788

Approved by the Board:

MICHEL FOURNIER
President and Director

ERMAN J. COCCI
Director

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture) —*Continued*

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Revenues		
Tolls	2,601,737	2,721,789
Rentals	118,628	111,651
Interest	20,270	29,951
Other	54,762	51,844
	2,795,397	2,915,235
Expenses		
Maintenance	1,236,518	1,172,168
Toll collection	572,774	591,034
Administration	454,123	449,806
Amortization of capital assets and deferred major repairs	279,501	295,069
Interest due to venturers (Note 7)	60,216	96,592
	2,603,132	2,604,669
Excess of revenues over expenses for the year	192,265	310,566
Allocation of excess of revenues over expenses for the year as per the joint venture agreement (Note 7)		
Saint Lawrence Seaway Development Corporation	96,133	155,283
The St. Lawrence Seaway Authority	96,132	155,283
Total allocation	192,265	310,566

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	$	$
Operating activities		
Cash provided from operations		
Excess of revenues over expenses, before allocation to venturers	192,265	310,566
Items not requiring cash		
Provision for employee termination benefits	26,434	30,883
Amortization of capital assets and deferred major repairs	279,501	295,069
	498,200	636,518
Change in working capital items other than cash and short-term investments and due to venturers	154,300	(23,645)
Payments of employee termination benefits	(6,164)	(27,866)
Cash provided by operating activities	646,336	585,007
Financing activities		
Payments to venturers, net of interest credited	(254,861)	(744,199)
Investing activities		
Additions to capital assets	(48,257)	(38,919)
Increase (decrease) in cash	343,218	(198,111)
Cash and short-term investments, beginning of the year	251,551	449,662
Cash and short-term investments, end of the year	594,769	251,551

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture) —*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Authority and activities

The Seaway International Bridge Corporation, Ltd. (SIBC; the Joint Venture) is an agent of The St. Lawrence Seaway Authority (SLSA) and its U.S. counterpart, the Saint Lawrence Seaway Development Corporation (SLSDC).

SIBC was incorporated under the *Canada Corporations Act* in 1962, continued under the *Canada Business Corporations Act*, and is subject to the *St. Lawrence Seaway Authority Act*. SLSA owns all the issued shares which makes SIBC a subsidiary of SLSA for the purposes of the *Financial Administration Act*.

The SLSA's share ownership in SIBC accounts for its 50% investment in the Joint Venture. The SLSDC's 50% investment in the Joint Venture is represented by the debentures payable. Strategic operating, investing and financing decisions need approval by the Board of Directors which is made up of an equal number of representatives from each of the two venturers.

The purpose of the Joint Venture is to operate and manage the international crossing between Cornwall, Ontario, and Rooseveltown, New York based on a September 1957 joint venture agreement. The crossing comprises two high level bridges, the North Channel Bridge and the South Channel Bridge. The operations include the collections of tolls.

2. Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada. A summary of significant accounting policies follows:

Excess of revenues over expenses

Excess of revenues over expenses is distributed based on a formula specified in the joint venture agreement as described in Note 7 to the financial statements. The excess of revenues over expenses represents amounts collected on behalf of the SLSA and the SLSDC, and does not constitute a profit for the Joint Venture.

Foreign currency translation

Transactions in foreign currency, essentially tolls collected in U.S. dollars, are converted into Canadian dollars at the exchange rate in effect on the transaction date.

Short-term investments

Short-term investments are recorded at cost.

Capital assets and amortization

Capital assets are recorded at cost. These costs include moveable and removable assets acquired to operate the bridge. The cost of the North Channel Bridge is recorded in the books of the SLSA. The cost of the South Channel Bridge is recorded in the books of the SLSA (32%) and the SLSDC (68%).

Costs, borne by the Joint Venture, that are improvements to the North Channel Bridge which are required for operational efficiency and to ensure its reliability are capitalized if they enhance the service potential of the capital asset. Costs of major repairs and betterments to the South Channel Bridge are the direct financial responsibility of the two venturers and, as a result, are not recorded as capital assets or expenses in the financial statements.

Amortization of capital assets is based on their estimated useful life and is calculated on the straight-line method at the following annual rates:

Automotive	10% and 20%
Maintenance equipment	10% to 20%
Office and toll equipment	10% to 20%
Buildings	5% to 10%
Bridge equipment	5%
Remedial works	4.8% to 10%

Deferred major repairs

Deferred major repairs are recorded at cost and are amortized using the straight line method over the estimated 10-year useful life.

Employee termination benefits

Most of the employees are entitled to specified benefits on termination as provided for under the conditions of employment. The liability for these benefits is recorded in the accounts as the employees become entitled to the benefits. The termination benefits correspond to the higher of a week's salary for each year of service up to a maximum of 28 weeks or 75% of the employee's accumulated sick leave days.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Joint Venture. These contributions represent the total pension liability of the Joint Venture and are recognized in the accounts on a current basis. The Joint Venture is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Deferred revenue

Revenue from the sale of toll tickets is deferred until their redemption within a two-year period from the month of sale. Proceeds received relating to toll tickets that are still unredeemed after that two-year period are recorded as toll revenue.

3. Cash and short-term investments

In the course of its normal activities, the Joint Venture invests its temporary excess funds in short-term deposits in Canadian financial institutions. As at December 31, 1997, the Corporation had $249,618 invested in short-term deposits and Canada Treasury Bills (none in 1996). The rate of return on short-term investments varied between 3.1% and 4.0% during the year (3.3% and 7.0% in 1996). The Joint Venture also earns interest at prime less 2.5% on its cash in the bank when the monthly balance exceeds $100,000. The amount in the financial statements approximates fair value.

4. Accounts receivable, accounts payable and accrued liabilities

These accounts are incurred in the normal course of business. They are usually receivable or payable within a month and are non-interest bearing. The carrying amount of each approximates fair value.

5. Capital assets

	1997			1996		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	$	$	$	$	$	$
Automotive	193,631	182,003	11,628	193,631	173,757	19,874
Maintenance equipment	303,362	197,158	106,204	299,798	173,750	126,048
Office and toll equipment	556,764	450,049	106,715	512,071	400,864	111,207
Buildings	68,815	22,787	46,028	68,815	19,719	49,096
Bridge equipment	40,007	22,004	18,003	40,007	20,004	20,003
Remedial works	97,834	34,662	63,172	97,834	29,710	68,124
	1,260,413	908,663	351,750	1,212,156	817,804	394,352

6. Deferred major repairs

Deferred major repairs represent the cost of major rehabilitation projects completed in 1995 which maintain the reliability of the North Channel Bridge over future years.

	1997	1996
	$	$
Cost	1,886,413	1,886,413
Accumulated amortization	748,114	559,472
Net book value	1,138,299	1,326,941

7. Due to venturers

As per the joint venture agreement, the annual excess of revenues over expenses over the years was first distributed to the SLSA as a bridge user charge to reimburse it for the construction cost of the North Channel Bridge together with interest. At the end of 1993, the bridge user charge distributed to SLSA totalled $11,109,347 representing the full reimbursement of the said construction cost and related interest. Accordingly, since then the annual excess of revenues over expenses is divided equally between the SLSA and the SLSDC.

The amounts due to the SLSA and the SLSDC are calculated as follows:

	SLSA		SLSDC		Total	
	1997	1996	1997	1996	1997	1996
	$	$	$	$	$	$
Balance due at beginning of year	1,366,867	1,592,582	233,148	441,066	1,600,015	2,033,648
Interest credited	50,784	75,173	9,432	21,419	60,216	96,592
Allocation of excess of revenues over expenses	96,132	155,283	96,133	155,283	192,265	310,566
	1,513,783	1,823,038	338,713	617,768	1,852,496	2,440,806
Payments made during the year						
—Remittance of a portion of prior years' excess of revenues over expenses	200,000	200,000			200,000	200,000
—Interest	50,784	75,173			50,784	75,173
—Work done on behalf of SLSA and SLSDC to the South Channel Bridge*	20,574	180,998	43,719	384,620	64,293	565,618
	271,358	456,171	43,719	384,620	315,077	840,791
Balance due at end of year	1,242,425	1,366,867	294,994	233,148	1,537,419	1,600,015
Long-term portion	906,477	1,161,917	294,994	233,148	1,201,471	1,395,065
Current portion	335,948	204,950			335,948	204,950

*Major repairs and/or betterments incurred to assure the reliability of the South Channel Bridge are to be borne by SLSA and the SLSDC in the ratio of 32% and 68% respectively.

The long-term portion of the amount due to each venturer is to represent their respective share of the financing of deferred major repairs and remedial works, which total $1,201,471 at year end. The total amount due to SLSDC is currently lower than its required share and, as a result, SLSA carries the difference. The long-term portion of the amount due to SLSDC is expected to increase by its share in the excess of revenues over expenses in future years, until it matches its share of the unamortized balance of deferred major repairs.

The amounts due to the SLSA and the SLSDC will be paid as funds become available. Interest is credited on the balance outstanding at the average one year Treasury Bill rate for the long-term portion and at the average three months Treasury Bill rate for the current portion.

8. Debentures payable

These debentures, due on December 31, 2012, are non-interest bearing and are payable to the SLSDC.

9. Bridge use

With the approval of the Canadian Transportation Agency, the Joint Venture continues the practice of providing free usage of the bridge system to certain North American Indians. This represents a substantial portion of the Bridge traffic.

10. Related party transactions

Included in expenses are administrative support and certain engineering services provided by the SLSA. Administrative support services amounted to $66,634 for 1997 ($66,955 for 1996). The charge for engineering services amounted to $32,159 for 1997 ($42,812 for 1996). The Joint Venture also enters into various other transactions with the Government of Canada, its agencies and other Crown corporations, in the normal course of business.

STANDARDS COUNCIL OF CANADA

REPORT OF MANAGEMENT'S RESPONSIBILITY

THE HONOURABLE JOHN MANLEY, P.C., M.P.
MINISTER OF INDUSTRY

The accompanying financial statements and all information in the annual report are the responsibility of the Council and its officers. The financial statements were prepared by management in conformity with generally accepted accounting principles appropriate to Council's operations. The non-financial information provided in the annual report has been selected on the basis of its relevance to Council's objectives.

Council maintains a system of financial and management controls and procedures designed to provide reasonable assurance that the transactions undertaken by the Council are appropriately authorized, that assets are safeguarded and that financial records are properly maintained to provide reliable financial statements. These controls and procedures are also designed to provide reasonable assurance that transactions are in accordance with the Council's objectives and within its mandate as stated in the *Standards Council of Canada Act*.

The Auditor General annually provides an independent, objective review of the financial records to determine if the financial statements report fairly the operating results and financial position of the Council in accordance with generally accepted accounting principles.

Council, through its Audit Committee, is responsible for reviewing management's financial and reporting practices in order to satisfy itself that these responsibilities are properly discharged by management. The Audit Committee, comprised solely of Council members, meets with management and the Auditor General to review the annual financial statements and reports on them to the Council.

Linda Lusby
Chair

AUDITOR'S REPORT

TO THE MINISTER OF INDUSTRY

I have audited the balance sheet of the Standards Council of Canada as at March 31, 1998 and the statements of operations and equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Council that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Standards Council of Canada Act* and the by-laws of the Council.

Richard Flageole, F.C.A
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 15, 1998

BALANCE SHEET AS AT MARCH 31

ASSETS	1998	1997
	$	$
Current		
Cash	759,653	748,718
Accounts receivable		
Federal government departments and agencies	597,514	894,056
Other	1,308,359	998,455
Parliamentary appropriation receivable	156,000	322,000
Inventory of foreign standards	54,500	161,313
Prepaid expenses	273,388	347,345
	3,149,414	3,471,887
Capital assets (Note 3)	952,384	767,049
	4,101,798	4,238,936

LIABILITIES	1998	1997
	$	$
Current		
Accounts payable and accrued liabilities	1,027,746	1,221,639
Contributions	63,006	144,946
Deferred revenue		28,132
Deferred revenue related to capital assets (Note 4)	549,420	357,660
	1,640,172	1,752,377
Long-term		
Accrued employee severance benefits	75,335	110,467
	1,715,507	1,862,844
EQUITY OF CANADA		
Equity of Canada	2,386,291	2,376,092
	4,101,798	4,238,936

The accompanying notes are an integral part of these financial statements

Approved by the Council:

LINDA LUSBY
The Chair

MICHAEL B. McSWEENEY
Executive Director

STATEMENT OF OPERATIONS AND EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31

	1998	1997
	$	$
Revenue		
Sales of standards	1,808,928	2,041,068
Accreditation fees	2,135,937	1,682,728
Standards Initiatives Program funding	866,391	984,805
WTO/NAFTA Enquiry Point	274,692	261,163
Other	102,401	151,648
	5,188,349	5,121,412
Expenses		
Salaries and employee benefits	3,825,546	3,694,307
Professional and special services	1,216,919	1,067,349
Travel	1,172,502	1,071,447
Memberships in international organizations	1,039,118	1,209,778
Direct cost of standards sold	863,448	926,507
Office accommodation	753,323	754,586
Publications and printing	408,392	432,623
Telecommunications and postage	274,054	291,431
Amortization of capital assets	266,629	179,796
Office supplies	109,773	130,809
Public relations	80,199	89,593
Meetings	68,777	38,233
Rental of office equipment	62,088	69,421
Other	148,382	153,037
	10,289,150	10,108,917
Net result of operations before government funding	5,100,801	4,987,505
Parliamentary appropriation	5,111,000	5,184,000
Net income	10,199	196,495
Equity of Canada at the beginning of the year	2,376,092	2,179,597
Equity of Canada at the end of the year	2,386,291	2,376,092

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1998	1997
	$	$
Operating activities		
Net income	10,199	196,495
Item not requiring an outlay of cash		
Amortization of capital assets	266,629	179,796
	276,828	376,291
Payment of accrued employee severance benefits	(35,132)	(38,638)
Changes in current liabilities and current assets other than cash	221,203	288,103
Cash applied to operating activities	462,899	625,756
Investing activities		
Additions to capital assets	(451,964)	(557,405)
Increase in cash during the year	10,935	68,351
Cash at beginning of the year	748,718	680,367
Cash at end of the year	759,653	748,718

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998

1. Authority, objects, and programs

The Standards Council of Canada was created by Parliament as a corporation under the *Standards Council of Canada Act* in 1970 (revised, 1996) to be the national coordinating body for voluntary standardization. The Council is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act.*

The mandate of the Council is to promote voluntary standardization in Canada, where standardization is not expressly provided for by law, in order to advance the national economy, support sustainable development, benefit the health, safety and welfare of workers and the public, assist and protect consumers, facilitate domestic and international trade and further international cooperation in relation to standardization.

In carrying out its mandate, the SCC performs the following activities:

- accrediting organizations engaged in standards development and conformity assessment;
- representing Canada's interests regionally and internationally through membership in the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), the Pacific Area Standards Congress, the Pan American Standards Commission, the International Laboratory Accreditation Cooperation, the Pacific Accreditation Cooperation, the Inter-American Accreditation Cooperation and the International Accreditation Forum;
- overseeing and coordinating Canada's participation in international standardization work;
- approving National Standards of Canada;
- providing advice and assistance to the Government of Canada in the negotiation of standards-related aspects of international trade and mutual recognition agreements;
- working with international and foreign standards bodies to develop standardization agreements that facilitate trade;
- fostering and promoting an understanding of the benefits and usage of standards and conformity assessment;
- collecting and distributing information on standards activities; and
- operating Canada's North American Free Trade Agreement and World Trade Organization enquiry points on behalf of the federal government.

2. Significant accounting policies

(a) Inventory

Inventory of foreign standards is valued at the lower of cost and net realizable value.

(b) Prepaid expenses

Annual membership fees paid to ISO and IEC for periods extending beyond the fiscal year are recorded as prepaid expenses.

(c) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful life of the assets as follows:

Furniture	5 years
Equipment	4 years
Leasehold improvements	term of the lease

(d) Revenue and deferred revenue

Revenue is recorded on an accrual basis in the year in which it is earned. Amounts invoiced for accreditation services which have not been rendered are deferred and the revenue recorded as the services are provided.

(e) Employee severance benefits

Up to March 31, 1994, employees earned specified benefits payable on termination as provided for under their conditions of employment. Benefits due to employees as of that date will be paid out over a five year period ending March 31, 1999, or upon an employee's termination if prior to March 31, 1999. The fair value of outstanding benefits approximates their carrying value.

(f) Recoverable expenses

Recoveries of expenses in respect of an agreement for the operation of the World Trade Organization/North American Free Trade Agreement (WTO/NAFTA) Enquiry Point are recognized as revenue at the time the expenses are incurred.

(g) Parliamentary appropriation

Operating expenditures and the acquisition of capital assets are financed by a parliamentary appropriation which is recorded in the Statement of Operations and Equity of Canada in the year for which it is approved.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Council's contributions to the plan are limited to matching the employee's contributions for current service. These contributions are expensed during the year in which services are rendered and represent the total pension obligations of the Council.

3. Capital assets

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Furniture	265,683	249,974	15,709	28,496
Equipment	1,891,461	1,038,019	853,442	635,344
Leasehold improvements	157,433	74,200	83,233	103,209
	2,314,577	1,362,193	952,384	767,049

4. Deferred revenue related to capital assets

In 1997 and 1998, the Council was awarded various contracts under the Industry Canada Standards Initiatives Program. Some of the contracts required the acquisition of capital assets for the delivery of services over an estimated period of four years. Amounts received pursuant to these contracts have been recorded as deferred revenue and are being amortized to income on the same basis as the related capital assets. The changes in the deferred revenue related to capital assets balance for the period are as follows:

	1998	1997
	$	$
Beginning balance	357,660	
Add acquired assets	298,511	382,772
Less amounts amortized to revenue	106,751	25,112
Ending balance	549,420	357,660

5. Financial instruments

Accounts receivable and accounts payable are incurred in the normal course of business. All are due on demand and non-interest bearing. The carrying amounts of each approximate fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

6. Lease commitment

The Council is leasing office space for a ten year term which expires in May 2002. The future minimum annual rental under this agreement, exclusive of operating and realty tax expense, is $416,008.

7. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Council is related in terms of common ownership to all Government of Canada created departments, agencies, and Crown corporations. The Council enters into transactions with these entities in the normal course of business.

8. Comparative figures

Certain of the 1997 comparative figures have been reclassified to conform to the current year's presentation .

VANCOUVER PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID COLLENETTE, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the consolidated balance sheet of the Vancouver Port Corporation as at December 31, 1997 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the charter and by-laws of the Corporation.

KPMG
Chartered Accountants

Vancouver, Canada
February 6, 1998

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current assets		
Cash	3,390	2,411
Investments (Note 2)	38,798	80,777
Accounts receivable	11,718	10,774
	53,906	93,962
Long-term receivables (Note 3)	1,609	11,637
Debt retirement fund (Note 4)	45,500	
Property and equipment (Note 5)	430,106	427,733
Deferred costs, net of amortization	2,000	1,040
	533,121	534,372

LIABILITIES AND EQUITY OF CANADA	1997	1996
Current liabilities		
Accounts payable and accruals	29,429	32,062
Grants in lieu of municipal taxes	3,798	2,024
Deferred revenue	4,772	5,984
	37,999	40,070
Accrued employee benefits	1,530	1,636
Long-term obligations (Note 6)	127,498	131,638
	167,027	173,344
EQUITY OF CANADA		
Contributed capital	150,259	150,259
Retained earnings	215,835	210,769
	366,094	361,028
Commitments (Note 9)		
Contingencies (Note 10)		
	533,121	534,372

See accompanying notes to consolidated financial statements.

On behalf of the Board:

CAROLE TAYLOR
Chair

JAMES W. Y. LEE
Director

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Operating revenue	71,454	64,800
Expenses		
Operating and administrative expenses	28,281	28,384
Costs of disbanding Ports Canada police services (Note 7)	6,429	
Grants in lieu of municipal taxes	4,641	5,119
Depreciation	17,187	10,776
	56,538	44,279
Income from operations	14,916	20,521
Gain on disposal of fixed assets	5,382	
Investment income	3,004	4,234
Interest expense	(9,980)	(6,617)
	(1,594)	(2,383)
Recoveries of prior years' grants in lieu of municipal taxes (Note 10)	1,428	7,514
Write-down of property and equipment (Note 5)	(9,684)	(26,160)
Net income (loss) for the year	5,066	(508)
Retained earnings, beginning of year	210,769	214,540
	215,835	214,032
Dividend payment to Canada		(3,263)
Retained earnings, end of year	215,835	210,769

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1997
(in thousands of dollars)

	1997	1996
Cash provided by (used for)		
Operations		
Net income (loss) for the year	5,066	(508)
Items not involving cash		
Depreciation and amortization	17,187	10,776
Gain on disposal of fixed assets	(5,382)	
Write-down of fixed assets	9,684	26,160
Other	(26)	1,052
Changes in non-cash operating working capital	(3,015)	1,078
	23,514	38,558
Financing		
Long-term obligations, net	(4,140)	87,314
Dividend payment to Canada		(3,263)
Long-term receivables	10,028	365
	5,888	84,416
Investments		
Additions to property and equipment, net	(23,835)	(97,395)
Debt retirement fund	(45,500)	
Deferred costs	(1,067)	
	(70,402)	(97,395)
Increase (decrease) in cash and short-term investments	(41,000)	25,579
Cash and short-term investments, beginning of year	83,188	57,609
Cash and short-term investments, end of year	42,188	83,188

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1997
(tabular amounts in thousands of dollars)

Local port corporation

The Vancouver Port Corporation was established on July 1, 1983 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

The Corporation's mission is to facilitate and expand the movement of cargo and passengers through the Port of Vancouver, to provide facilities, services and technologies that are competitive, safe, commercially viable, dependable and customer oriented, and to operate with broad public support in the best interests of Canadians.

The national marine transportation system has been reviewed by the Government of Canada. As a result of this review, it is proposed that, in 1999, the *Canada Marine Act* will supersede the *Canada Ports Corporation Act*. At this time, the financial impact of this change on the Corporation is not known.

1. Significant accounting policies

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. A summary of the significant accounting policies of the Corporation is as follows:

(a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Canada Place Corporation. All significant intercompany accounts and transactions have been eliminated.

(b) Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis, commencing with the month the asset becomes operational, at rates based on the estimated useful life of the assets as follows:

Asset	Rate
Dredging	15 to 40 years
Berthing structures, buildings, road surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	3 to 5 years

(c) Deferred costs

Deferred costs are amortized over periods from 20 to 40 years.

(d) Pension costs

All permanent employees of the Corporation are covered by either the Public Service Superannuation Plan administered by the Government of Canada, or a private group retirement plan. Contributions to these plans are required from the employees and the Corporation. Although both plans are defined benefit plans, the contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or for indexation payments under the *Supplementary Retirement Benefits Act*.

(e) Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are estimated by the Corporation in accordance with the *Municipal Grants Act*. Accruals are re-evaluated each year and changes, if any, are made in the current period's financial statements based on the best available information, including the results of audits by the Municipal Grants Division of Public Works Canada.

(f) Employee benefits

The Corporation accrues estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

2. Investments

Short-term investments, which are classified as current assets, are in Government of Canada treasury bills. At December 31, 1997 and 1996, the market value of these treasury bills approximated their carrying value.

3. Long-term receivables

	1997	1996
	$	$
Long-term agreements for sale, bearing interest at 8.525% per annum, receivable in blended annual installments totalling approximately $1.3 million, maturing between 1998 and 2012, repayable at any time		11,280
Less current portion (included in accounts receivable)		(357)
		10,923
Amounts due from municipalities, net of current portion		627
Long-term rental receivables, net of current portion	867	
Notes receivable from tenants	742	
Other		87
	1,609	11,637

4. Debt retirement fund

The debt retirement fund comprises Government of Canada treasury bills of $35,498,000 and Government of Canada bonds of $10,002,000 with yields ranging from 4.45% to 5.56% and maturing between March 1, 1999 and May 1, 2000. The Board of Directors has approved a resolution to allocate, effective December 31, 1997, $45,500,000 of investments solely for the purpose of retiring debt owing to the Export Development Corporation at the time the obligations are due in 2005 and 2006 (see Note 6). This debt retirement fund will grow with accumulated earnings.

5. Property and equipment

	1997			1996
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	94,258		94,258	91,207
Dredging	2,687	388	2,299	271
Berthing structures	136,613	36,967	99,646	51,975
Buildings	124,311	39,525	84,786	81,457
Utilities	45,057	13,210	31,847	10,226
Roads and surfaces	86,461	33,095	53,366	10,562
Machinery and equipment	64,131	22,565	41,566	15,273
Office furniture and equipment	11,683	9,459	2,224	3,644
Projects under construction	20,114		20,114	163,118
	585,315	155,209	430,106	427,733

During the years ended December 31, 1997 and 1996, revaluations of a capital asset of the Corporation's wholly-owned subsidiary, Canada Place Corporation, were undertaken. As a result, the carrying amount of a building was written-down by $8,505,000 in 1997 and $26,160,000 in 1996 to its net recoverable amount, based on projected undiscounted future net cash flows. In addition in 1997, the Corporation wrote-off a capital asset costing $1,179,000 which was determined to be of no future benefit.

6. Long-term obligations

	1997	1996
	$	$
Unsecured loan from Canada, bearing interest at 7.5% repayable in blended annual installments maturing December 31, 2000		1,710
Unsecured loan from Export Development Corporation, bearing interest at 8.525%, repayable in quarterly installments, amortized over 15 years, maturing May 31, 2005	40,765	42,614
Unsecured loan from Export Development Corporation, bearing interest at 8.345%, repayable in quarterly installments, amortized over 15 years, maturing May 31, 2006	40,073	41,671
Unsecured loan from Export Development Corporation, bearing interest at 6.538%, repayable in quarterly installments, amortized over 15 years, maturing November 28, 2006	49,472	51,600
Owing to municipalities and being repaid monthly, on a non-interest bearing basis, until 2003	4,271	
	134,581	137,595
Less current portion (included in accounts payable)	(7,083)	(5,957)
	127,498	131,638

Principal repayment requirements over the next five years are as follows:

	$
1998	7,023
1999	7,338
2000	7,676
2001	8,035
2002	8,436
	38,508

7. Costs of disbanding Ports Canada police services

In 1996, Canada Port Corporation decided to disband Ports Canada Police. As a result, the Vancouver detachment of Ports Canada Police was disbanded July 24, 1997. Vancouver Port Corporation incurred a total cost of $6,429,000 which included the cost of the agreements with the municipalities and severance payments to staff of the Vancouver detachment of Ports Canada Police.

8. Related party transactions

In addition to the related party transactions described elsewhere in these consolidated financial statements, the Corporation paid $837,557 (1996—$1,221,544) to Canada Ports Corporation for its share of that corporation's operating expenses.

9. Commitments

Contractual obligations for the construction, purchase and lease of property and equipment as at December 31, 1997 are estimated at $21.8 million (1996—$46.2 million).

It is the policy of all port corporations that each port corporation pay a dividend to Canada not later than March 31 based on a corporation's prior year's income. Dividends are recorded by the Corporation as a liability when declared.

10. Contingencies

(a) At December 31, 1997, the Corporation had claims from certain Lower Mainland municipalities for grants in lieu of taxes of approximately $11.0 million (1996—$10.1 million) greater than the amount accrued in the financial statements. Management is confident that the claims by municipalities not accrued in the financial statements will not result in additional cost to the Corporation.

During 1997, the Municipal Grants Division of Public Works Canada completed audits at certain municipalities. As a result of the 1997 audits, it is now evident that the Corporation expensed, in prior years, a total of $5.5 million for grants in lieu of taxes more than was required. The benefit of this amount has been recorded in the statement of operations except that the potential benefit of $4.0 million (1996—$5.2 million) for over payments of grants in lieu of taxes in prior years has not been recorded due to uncertainty.

(b) There are claims against the Corporation which have not been accrued in these financial statements. In management's opinion, the likelihood of these claims succeeding is not determinable. The effect, if any, of the ultimate resolution of these matters will be accounted for in the accounts in the year a liability is estimable

11. Financial instruments

The carrying value of current assets, long-term treasury bills and current liabilities approximates their fair value due to the relatively short period to maturity of these financial instruments. At December 31, 1997, the fair value of other financial assets and financial liabilities in the consolidated balance sheet is as follows:

	1997		1996	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Long-term receivables...	1,609	1,609	11,010	11,010
Long-term bonds.....	10,002	9,915		
Long-term obligations...	134,581	145,277	137,595	145,214

The fair values of the Corporation's long-term receivables and long-term loans are determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

12. Comparative figures

Certain of the 1996 comparative figures have been restated to conform with the presentation adopted in the current year.

VIA RAIL CANADA INC.

MANAGEMENT REPORT

Management of the Corporation is responsible for the preparation and integrity of the financial statements contained in the annual report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Financial information used elsewhere in the annual report is consistent with that in the financial statements. Management considers that the statements present fairly the financial position of the Corporation, the results of its operations and the changes in its financial position.

To fulfill its responsibility, the Corporation maintains systems of internal accounting controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair Deloitte & Touche, general partnership as internal auditors. The external auditors, the Auditor General of Canada and Raymond Chabot Grant Thornton, general partnership have audited the Corporation's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

T. W. Ivany
President and Chief Executive Officer

J. R. Paquette
Vice-President, Planning and Finance, and Treasurer

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have audited the balance sheet of VIA Rail Canada Inc. as at December 31, 1997 and the statements of operations, reconciliation to operating funding from the Government of Canada, contributed surplus, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and the regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

Raymond Chabot Grant Thornton
General partnership
Chartered Accountants

Montreal, Canada

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 12, 1998

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

ASSETS	1997	1996
Current assets		
Cash and term deposits	21,477	16,864
Accounts receivable	7,303	8,064
Receivable from the Government of Canada	57,265	56,027
Materials	16,884	17,145
	102,929	98,100
Long-term assets		
Properties (Note 3)	544,484	579,359
Asset renewal fund (Note 4)	37,513	35,058
Deferred charges	3,173	
	585,170	614,417
	688,099	712,517

LIABILITIES	1997	1996
Current liabilities		
Accounts payable and accrued liabilities	84,108	79,811
Deferred revenue	4,768	4,975
	88,876	84,786
Long-term liabilities		
Network restructuring and reorganization charges (Note 5)	29,088	28,160
Other	7,174	8,543
	36,262	36,703
SHAREHOLDER'S EQUITY		
Share capital (Note 6)	9,300	9,300
Contributed surplus	594,470	626,906
Deficit	(40,809)	(45,178)
	562,961	591,028
	688,099	712,517

See accompanying notes to financial statements.

Signed on behalf of the Board:

HUGH K. SMITH, Q.C.
Director and Chairman of the Audit Committee

MARC LEFRANÇOIS
Director and Chairman of the Board

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1997	1996
Revenue		
Passenger	178,917	167,911
Other	11,642	16,623
	190,559	184,534
Expenses		
Customer services	231,277	227,494
Equipment maintenance	82,055	92,847
Marketing and sales	27,531	26,933
Support services	30,670	31,565
General and administrative	12,079	9,920
Reorganization charges (Note 5)	6,302	2,508
Income and capital taxes	3,356	1,537
	393,270	392,804
	202,711	208,270
Operating funding from the Government of Canada	212,295	224,520
Results before items not requiring (not providing) operating funding from the Government of Canada	9,584	16,250
Amortization	42,046	42,566
Write-down of properties (Note 3)	6,358	33,766
Reorganization charges to be funded in subsequent years (Note 5)	9,248	10,015
Deferred pension costs net of experience gains	(3,558)	
Net results	(44,510)	(70,097)

See accompanying notes to financial statements.

STATEMENT OF RECONCILIATION TO OPERATING FUNDING FROM THE GOVERNMENT OF CANADA
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1997	1996
Net results	(44,510)	(70,097)
Items not requiring (not providing) operating funds		
Amortization and gains and losses on properties	42,521	43,064
Writedown of properties	6,358	33,766
Reorganization charges to be funded in subsequent years	9,248	10,015
Network restructuring and reorganization charges recovery	(10,018)	(16,737)
Deferred pension costs net of experience gains	(3,558)	
	44,551	70,108
Operating funding surplus for the year	41	11

See accompanying notes to financial statements

STATEMENT OF CONTRIBUTED SURPLUS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1997	1996
Balance, beginning of year	626,906	683,064
Capital funding from the Government of Canada	16,443	20,672
Transfer to deficit		
Non-cash transactions on properties (1995: $39,123)	(48,879)	(76,830)
Balance, end of year	594,470	626,906

See accompanying notes to financial statements.

STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1997	1996
Balance, beginning of year	45,178	51,911
Net results	44,510	70,097
Transfer from contributed surplus		
Non-cash transactions on properties (1995: $39,123)	(48,879)	(76,830)
Balance, end of year	40,809	45,178

See accompanying notes to financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1997	1996
Cash provided by (used in) operating activities		
Net results	(44,510)	(70,097)
Non-cash charges (credits) to operations		
Amortization of properties	42,084	43,790
Losses (gains) on write-off, retirement and disposal of properties	437	(726)
Amortization of investment tax credits	(475)	(498)
Write-down of properties	6,358	33,766
Gain on sale of investment		(6,856)
Changes in non-cash working capital	10,205	(6,219)
Deferred charges	(3,173)	
Network restructuring and reorganization charges	928	5,420
Other long-term liabilities	(894)	(847)
	10,960	(2,267)
Cash provided by (used in) financing activities		
Capital funding from the Government of Canada	16,443	20,672
Receivable from the Government of Canada	(5,943)	20,828
	10,500	41,500
Cash provided by (used in) investment activities		
Asset renewal fund	(2,455)	(11,986)
Acquisition of properties	(16,443)	(20,672)
Advances on contracts	1,208	3,581
Proceeds from sale of investment		8,857
Proceeds from sale of properties	1,232	1,886
Accounts payable and accrued liabilities related to properties	(389)	(13,291)
	(16,847)	(31,625)
Cash and term deposits		
Increase during the year	4,613	7,608
Balance, beginning of year	16,864	9,256
Balance, end of year	21,477	16,864
Represented by		
Cash	1,324	259
Term deposits, 4.3 %, maturing in January, 1998 (1996: 3.1%)	20,153	16,605
	21,477	16,864

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1997

1. Authority and objectives

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. It was incorporated in 1977, under the *Canada Business Corporations Act*. The Corporation's vision is to be the best passenger transportation company in Canada with a mission to provide high-quality, low-cost passenger service. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is not an agent of Her Majesty and is subject to the *Income Tax Act* (Canada) and those of certain provinces.

2. Accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement, actual results could differ from the estimates. The significant accounting policies followed by the Corporation are summarized as follows:

(a) Funding from the Government of Canada

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded in the statement of operations. The amounts are determined on the basis of operating costs less commercial revenues excluding non-cash transactions relating to properties, certain network restructuring and reorganization charges, and are based on the operating budget approved by the Government of Canada for each year. Operating results are reconciled to operating funding in the statement of reconciliation to operating funding from the Government of Canada.

Funding to cover the costs of the network restructuring and reorganization charges is recorded as a recovery in the statement of operations in the year in which final settlements with or disbursements are made to employees or suppliers.

Funding for capital expenditures is recorded as contributed surplus on an accrual basis.

(b) Materials

Materials are valued at weighted average cost.

(c) Properties

Properties acquired from Canadian National Railway and Canadian Pacific Limited at the start of operations in 1978 were recorded at the net transfer values while subsequent additions, including those acquired under capital leases, are recorded at cost.

The costs of refurbishing and rebuilding rolling stock and costs associated with other property upgrading are capitalized if they are incurred to improve the service value or extend the useful lives of the properties concerned; otherwise, costs are expensed as incurred.

Retired assets are written down to their net realizable value.

(d) Amortization of properties

Amortization of properties is calculated on a straight-line basis at rates sufficient to write off the cost of properties, less their residual value, over their estimated useful lives, as follows:

Rolling stock	12 to 29 years
Maintenance buildings	25 years
Stations and facilities	20 years
Infrastructure improvements	5 to 38 years
Leasehold improvements	5 to 20 years
Machinery and equipment	4 to 15 years
Information systems	3 years
Other assets	7 to 10 years

No amortization is provided for projects in progress, advances on contracts in progress or retired assets.

(e) Leases

Properties recorded under capital leases are amortized on a straight-line basis over 20 years, which is representative of their useful lives.

Rental payments under operating leases are expensed as incurred.

(f) Income taxes

Funding from the Government of Canada provided to the Corporation to cover operating costs is determined on the basis of current needs. For this reason, income taxes are accounted for on the taxes payable basis as there is reasonable expectation that all taxes payable in future years will be included in the government approved formula for reimbursement and will be recoverable at that time.

(g) Deferred credits

Investment tax credits are amortized over the estimated useful lives of the related properties. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of properties. Lease inducement credits are amortized over the term of the leases. These credits are included in other long-term liabilities.

(h) Pension plans

The Corporation has defined benefit pension plans, based on retirement age, compensation and length of service, covering all its permanent employees.

The cost to the Corporation is determined by actuarial valuations which allocate to each year, the accrued portion of the benefits based on projections of employees' compensation levels to the time of their retirement, prorated on employees' years of service.

Pension expense (Note 8) includes the cost of benefits attributable to services rendered during the current year, the amortization of past service costs, the amortization of experience gains and losses as well as the amortization of plan amendments. Amortization is calculated on a straight-line basis over the expected average remaining service lives of the active employee groups.

The difference between the accumulated pension expense and the employer's contributions to the pension funds is reflected in the balance sheet as a long-term asset.

(i) Employee termination and special benefits

Employee termination and special benefits provided for under labour agreements and special programmes are expensed in the year in which these costs are incurred.

(j) VIA Préférence program

The incremental costs of providing travel awards under the Corporation's VIA Préférence frequent traveller reward program are accrued as the entitlements to such awards are earned and are included in accounts payable and accrued liabilities. The revenues from the sale of point credits to participating partners is recorded as revenues in the period in which the credits are sold.

(k) Financial instruments

The estimated fair value of financial instruments, except for the asset renewal fund, approximates their carrying value due to their current nature.

3. Properties

	1997				1996			
	Cost	Accumulated amortization	Net	Write-down	Cost	Accumulated amortization	Net	Write-down
	(in millions of dollars)							
Land	3.8		3.8		3.7		3.7	
Rolling stock	509.9	227.2	282.7	6.4	522.3	211.3	311.0	13.3
Maintenance buildings	159.1	72.7	86.4		159.1	65.6	93.5	7.9
Stations and facilities	33.1	11.5	21.6		27.1	10.0	17.1	
Infrastructure improvement	92.7	26.7	66.0		92.7	24.3	68.4	3.9
Leasehold improvements	85.6	52.9	32.7		86.0	49.7	36.3	7.2
Machinery and equipment	27.9	18.5	9.4		25.7	16.6	9.1	1.5
Information systems	54.4	53.1	1.3		72.4	69.8	2.6	
Other assets	20.9	19.9	1.0		20.8	19.3	1.5	
	987.4	482.5	504.9	6.4	1,009.8	466.6	543.2	33.8
Projects in progress			17.8				13.3	
Advances on contracts in progress							1.2	
Retired assets (at net realizable value)			21.8				21.7	
			544.5				579.4	

On December 31, 1997, the gross value of assets under capital leases included above was $5.7 million (1996—$5.8 million) and related accumulated amortization thereon amounted to $4.2 million (1996—$4.1 million).

Projects in progress primarily consist of station improvements and equipment.

The Corporation has written down 9 cars and 2 locomotives (1996—20 LRC locomotives) to their salvage values as they are damaged and are no longer in service.

In 1996, the Halifax and Toronto Maintenance Centres were written-down to their estimated market value as a result of the decision to rationalize the Maintenance Centre network.

4. Asset renewal fund

The Corporation has been authorized by the Treasury Board of the Government of Canada to segregate proceeds from the sale or lease of surplus assets as well as the operating savings resulting from the rationalization of its maintenance activities, in a manner which ensures that these funds, recorded at cost, are retained for future capital projects.

The Asset Renewal Fund investment decisions are made consistent with the Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations.

The Asset Renewal Fund includes the following investment instruments:

	1997		1996	
	Cost	Market value	Cost	Market value
	(in millions of dollars)			
Canadian bonds and discount notes (1996: banker's acceptance and bearers discount notes)	18.8	19.7	35.1	35.1
Pooled equity unit trust	18.7	19.7		
Cash and short-term investments	0.1	0.1		
	37.6	39.5	35.1	35.1

Canadian bonds and discount notes bear interest at rates varying between 3.82% and 11.25% (1996—2.94% and 3.19%) and mature between January 1998 and December 2026.

The fair value of Canadian bonds, discount notes and pooled equity unit trust is equivalent to the market value based on the current bid price at the balance sheet date.

With these investments, the Corporation is not encountering any significant market, cashflow or interest rate risk.

5. Network restructuring and reorganizations charges

The Corporation has incurred expenses related to approved plans for the restructuring of its transportation network on October 4, 1989 as well as subsequent reorganizations.

As at December 31, 1997 a provision of $42.1 million (1996—$43.3 million), of which $29.1 million (1996—$28.2 million) is reflected as a long-term liability, has been recorded to provide for the on-going costs of severance payments and employment security benefits governed by labour agreements, special programmes and arbitration decisions which may extend over several years.

6. Share capital

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 1997 and 1996, 93,000 shares at $100 per share are issued and fully paid.

7. Commitments

(a) The future minimum payments relating to operating leases mainly for real estate and computer equipment are as follows:

	(in millions of dollars)
1998	9.7
1999	9.4
2000	11.3
2001	5.3
2002	5.3
Subsequent years up to 2047	28.7
	69.7

(b) As at December 31, 1997, the Corporation has outstanding commitments amounting to $0.1 million (1996—$5.1 million) consisting mainly of equipment related projects.

(c) Effective January 1, 1989 and in 1997, the Corporation entered into a train service agreement and other agreements for the use of tracks and control of train operations. These agreements expire up to December 31, 2008.

(d) The Corporation has issued letters of credit totalling approximately $7.6 million (1996—$1.2 million) to various provincial government workmen's compensation boards as security for future payment streams. These financial instruments can only be exercised upon an unlikely default of payment event.

8. Pension plans

The latest actuarial valuations of the pension plans were carried out as at December 31, 1996 by external actuaries who are members of the Canadian Institute of Actuaries. Based on these valuations and actuarial projections for 1997, the accumulated plan benefits as at December 31, 1997 are $825.4 million. The net assets available to provide for these benefits at actuarial adjusted market values as at that date amount to $1,003.0 million.

Using the method identified in the pension plans accounting policy (Note 2 h), the pension costs net of experience gains for 1997 was a credit of $1.9 million of which $3.6 million is presented separately in the Statement of operations (1996—expense of $5.3 million) and included amortization of past service costs, experience gains and losses as well as the amortization of plan amendments.

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1997—*Concluded*

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments and agencies, and enters into transactions with these entities in the normal course of business on trade terms applicable to all individuals and enterprises.

10. Contingencies

In the ordinary course of business, various claims and lawsuits have been brought against the Corporation and it is the opinion of management that the settlement of these actions will not result in any material liabilities to the Corporation beyond any amounts already provided.

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